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State of North Carolina Department of the Treasurer



325 NORTH SALISBURY STREET RALEIGH, NORTH CAROLINA 27603-1388

The Honorable James G. Martin Governor of North Carolina Members of the Advisory Budget Commission Members of the General Assembly

Sir, Ladies and Gentlemen:

The Treasurer's Annual Report for the fiscal year 1989-90 represents one more chapter in the continuing history of responsible government in North Carolina. Naturally, as State Treasurer, I am proud that North Carolina has been able to maintain the high quality of its reputation in the nation's financial marketplace. The resulting advantages are made readily apparent when we market bonds and notes for the State and the units of local government.

Those of us in public service have a fiduciary responsibility to assure the taxpaying public that their State government is both accountable and responsive — accountable for the resources and service programs entrusted to our care — and responsive to the public interests.

We make this report, therefore, with much pleasure because we are proud of the stewardship we are able to demonstrate through the efforts and dedication of our departmental employees. Together, they deserve the credit for our accomplishments and thus, in behalf of the people of North Carolina, I want to say to them, "we thank you for a job well done."

Our unrelenting promise, too, is that our efforts shall continue.

Sincerely,

Harlan E. Boyles State Treasurer

Harlin E. Berles

N.C. DOCUMENTS
CLEARINGHOUSE

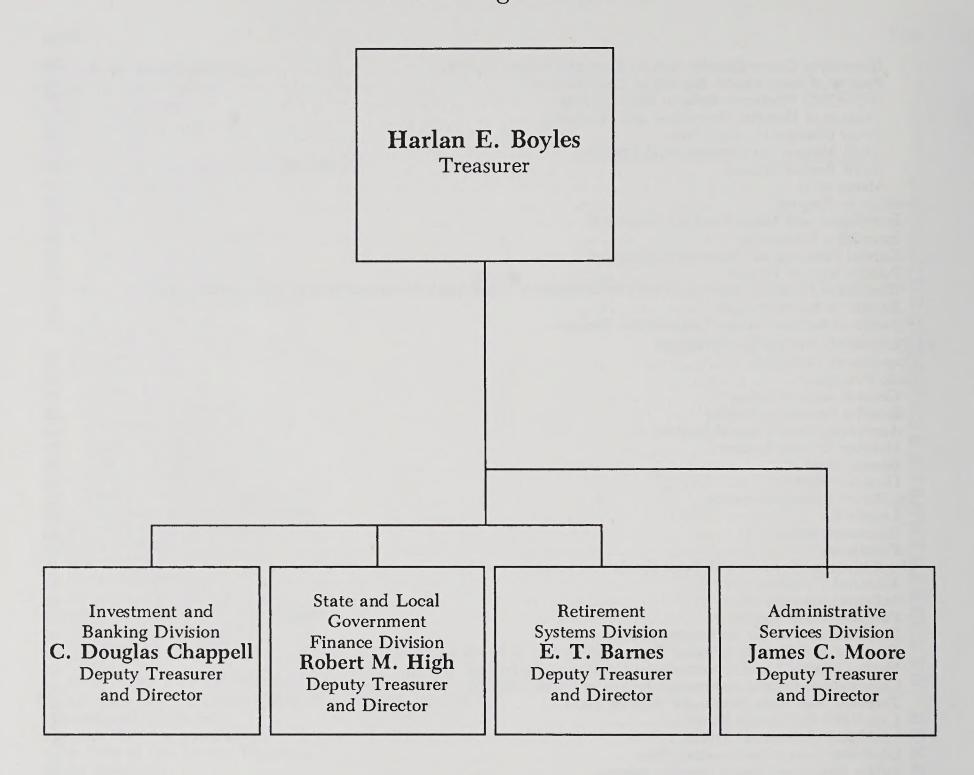
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IN PERSPECTIVE

The public's business is always an open issue.

Thus, it is in this context that we have come to use this portion of the Treasurer's annual report to address a few philosophical issues which we feel are worthy of public attention and discussion. The issues raised are from the perspective of the State Treasurer as an ex-officio member of various State boards and commissions. The objective is, of course, to speak with constructive purpose.

State government is big business. State government is the people's business. It must be actively managed and it must be given leadership and direction.

The people get the kind of government they are willing to accept. Change is inevitable. Progress and achievement are our objectives.

THE PURPOSE OF STATE GOVERNMENT

Within the bounds of the Constitution of North Carolina, the role and purpose of State government is determined by the General Assembly. The Assembly's adoption of the biennial budget gives meaning to the programs and services to be provided to the people of North Carolina. And, the State budget does two other things: it identifies the resources to be collected, in the form of taxes and fees, and it sets the maximum expenditures

authorized for the departments and agencies of State government. Under the Constitution, the expenditures authorized cannot exceed the projected resources.

Many of the challenges facing the State are reflected in the issues confronting State government and its management. The following sections offer a perspective from the State Treasurer.

STATE GOVERNMENT AND ITS BUDGET DILEMMA. It Takes on Urgency.

Never in the history of North Carolina have we experienced State government budget problems of the magnitude we see today. The problems are of serious proportions — they are real — they will not go away — and, the resulting "people pain" can be severe, if not soon corrected. There are no more stop-gap measures to be pulled from the hat. But, there are reasonable and acceptable solutions if our legislative and administrative leaders will work together — first, in admitting that there is a problem; and, second, in depoliticizing the alternatives advanced as prac-

tical and realistic solutions to the budget needs of State government.

Why do we emphasize the need to admit that there is a budget problem? The answer: just look at the facts. Even when it was clear that the revenue and budget shortfall for fiscal 1989-90 would reach \$550 million, the outcry of the program directors was "don't cut our budgets — we need more." And, since the General Assembly adjourned the 1990 budget session, the agency posturing for "more money" has continued — in

many instances singling out sensitive programs to be adversely affected, as opposed to saying "we're going to do our part in making the best out of a difficult situation." What is management's responsibility under difficult circumstances? Are there no marginal programs to be cut or postponed? Who, other than the agency administrator, is in a better position to point out existing excesses and inefficiencies? The not so subtle suggestion from too many agency administrators is that the only solution is "more money."

You say, depoliticize the alternatives? Yes, like never before in the history of the State. The reason is clear: the projected budget deficit numbers for the coming biennium are staggering — the public interest is at stake — and the potential for partisan politics is now quite evident. Because of the magnitude of the State budget problems, the fairer the resource and expenditure package, the louder the public outcry — from all corners, including the special interests and the agency administrators. Thus, in the hands of objective and statesmanlike leaders, it is possible to devise a budget package for State government which would inflict only minimal "pain" on the public at large — but not in a way that will always win majority support for its "individual components." The ideal combination of budget cuts and tax increases might well affect every resident of North Carolina. That's because ultimately the public must "pay" for government spending (or lack thereof), whether or not taxes are used. The less sweeping the analysis and the undertaking, the less opposition the solution engenders. The broader and more equitable the solution is, the broader the opposition to it.

Again, at issue is the budget gap between the wants and needs of the agencies of State government and the availability of public resources to pay for them. The gap for each of the two ensuing years, 1991-92 and 1992-93, will reach upwards of \$750 million. Is a major tax increase inevitable? Or, are significant reductions in existing agency budgets to be expected? Before we answer either of these two questions, let's look at some or all of the possible alternatives, including:

Reordering the priorities of existing programs

 programs initiated in previous years, but
 programs which may or may not be considered
 critical under today's circumstances;

- Reevaluating and quantifying the multitude of tax exemptions contained in the current revenue laws of the State;
- Reassessing all proprietary (service driven) programs underwritten through General Fund and Highway Fund appropriations programs which may be appropriately and justifiably underwritten by fees and charges made to the recipient of the services provided by such programs;
- Changing the line-item budgets for public schools to per capita grants, thus giving more flexibility and operational latitude to local school boards as a means of eliminating the mandates and the practice of overbudgeting for programs which may or may not be important or critical in every school unit across the State;
- Creating a separate "Education Fund," thus identifying and isolating for public scrutiny all expenditures (and resource needs) for State funded education;
- Identifying, quantifying and disclosing all intergovernmental transfers from State revenues to other governmental entities, made in the form of State-shared tax revenues, tax credits against State taxes for locally levied property taxes on homestead exemptions, inventories, intangibles, and other similar items;
- Reevaluating all State funded entitlement programs, thus quantifying the funds currently going to private non-profit institutions and other organizations via the State budget process;
- The adoption of salary, local supplement, and fringe benefit standards for public employees paid from two or more sources, when one source is from State appropriations;
- Exploring the advantages, if any, to the State
 of encouraging early retirement for those
 employees who are currently eligible for service
 retirement (with no reduction in benefits) by
 offering reemployment as part-time temporaries

 thus reducing substantially the cost of
 salaries and fringe benefits for many positions
 which are currently filled with full-time
 employees;

- Improving the State's employee retirement program using available unencumbered funds from within the Teachers' and State Employees' Retirement System, thus providing significant benefits (an alternative to immediate salary increases) to teachers and State employees, without the need for General Fund and Highway Fund appropriations;
- Authorizing programs for personal leave (leave without pay) for employees of all ages — programs currently available in other sectors, particularly for faculty members of colleges and universities; a concept that may have merit (on a carefully selected basis) in other governmental programs, possibly for central office personnel in public schools during summer months;
- Letting the "sun" shine (in depth) on all publicly funded programs — public schools, higher education, human resources, transportation, corrections, law enforcement, and general government — with emphasis on administrative and overhead costs;

- Utilizing more creatively the State's longevity pay program (possibly as a merit-pay program), thus rewarding and providing incentives for the longer-term employees, as opposed to the neutral across-the-board practices of recent years; and
- Recognizing that when public resources are scarce — when salary raises may be in jeopardy

 employees will readily accept meaningful changes in program funding; thus, the time seems appropriate to explore program modifications and employee compensation trade-offs; because good legislation involves compromise.

The inevitable conclusion: these are tough times ahead. The message is clear — at both the State and local levels of government, our elected legislative officials are going to have to increase taxes or cut expenditures, or both. Those political campaign cliches about belt tightening and tax increases suddenly must come true. The longer the wait, the more painful it is.

Get ready, folks!

THE STATE EXECUTIVE BUDGET ACT. A 1925 Version Serving the 1990's.

The ground rules for the administration of the State budget — as contained in the present day version of the Executive Budget Act — have little resemblance to the needs and complexities of State government today. Adequate evidence of the urgency of modernizing the budget process is the fact that the Executive Budget Act was adopted in 1925, when the legislative appropriation for the operation of what we now call the General Fund agencies and institutions for 1925-26 totaled less than \$13 million. The process has only been modified in minor ways since then. Here, for example, are just a few of the deficiencies of the present law:

• The adoption of the biennial appropriations act is not the same as an official or formal budget resolution. An official budget resolution addresses both revenue estimates and authorized expenditures. The present practice does not deal with the certification and recording of

official revenue estimates as part of the budget adoption process. The concept of an official budget resolution calls for the inclusion of revenue estimates, by source, and thus would clearly satisfy the Constitutional requirement for a balanced budget. The concept — to be effective — would also require all legislative measures subsequently enacted which call for spending authorizations to be treated as amendments to the official budget resolution.

• While the Constitution seems to lump all State budget funds together when mandating a balanced budget, there is an obvious need for enabling legislation clarifying the separateness of the General Fund from the Highway Fund, and from other independent budgetary and accounting entities as well. From a stewardship and accountability point of view, there is a clear need for a Capital Outlay Fund as well as certain trust and agency funds.

- The recent creation and establishment of a "rainy day" reserve fund — a significantly meritorious move — is now worthy of further legislation dealing with its management, the expenditure authorizations, and its accounting and periodic reporting requirements.
- Modern day budget laws uniformly cite the value and importance of formal agency "goals and objectives" or written work plans as part of the legislative review process. Clearly, there is the obvious need for the members of the General Assembly to better understand the scope and nature of agency programs which are to be underwritten by State appropriations; thus, there is much value in having agency budgets presented in a program format as well as by line items. Unquestionably, there are many agency programs and services which could and should be funded on a fee-for-service basis and yet, the only way to identify these programs and services is by use of the budget concept called "program budgeting."
- The new budget law should require that "fiscal assessments" accompany all new program initiatives so that the General Assembly would also have a better understanding of their impact on ensuing budget requirements.
- Presently, there is much confusion regarding the nature and character of the appropriations to the public schools and community colleges. Are they State agencies or are they units of local government? Do their appropriations constitute

- State agency appropriations or do they constitute grants-in-aid to units of local government?
- Again, has the time come to create an "Education Fund" separate and apart from the General Fund?
- Should the Executive Budget Act contain updated personnel procedures to accommodate reductions-in-force when necessary to respond to revenue shortfalls and/or appropriation emergencies?
- Where windfall revenues are contemplated and used in the Governor's budget proposal, should the official budget resolution provide for their clear disclosure, and also require the use of such revenues for capital outlay or deposit in the newly created "rainy day" reserve fund?
- With the creation of the Office of State Controller, what budget administration functions should be handled by the State Controller versus the Office of State Budget and Management?
- In the period between legislative sessions when revised budget and revenue estimates are clearly called for, because of changes in the State's economy or otherwise, what operational standards and disclosure requirements should be mandated to the Office of State Budget and Management? How should they detail and quantify the nature and scope of the budget adjustments proposed and/or imposed and in the interest of equity and fairness among State agencies?

THE STATE'S TRIPLE-A CREDIT RATING: Current Implications

Background and History: A Cherished Treasure

North Carolina's Triple-A national credit rating was long in coming — not until 1960, almost thirty years after the Great Depression — and well after the General Assembly had demonstrated over and over its commitment and dedication to the concept of a balanced budget.

The Triple-A rating refers to the bonds (indebtedness) of a state with the "best quality, carrying the smallest degree of investment risk." The system of rating is applied to the fiscal history, current financial performance and economic data of each state. Many of the factors considered revolve around the past: the State's debt paying ability, its debt trend and the extent of the taxing power and other resources behind the debt outstanding. But much consideration is also given to the attitude and character of its people and their insistence upon accountability in government.

The history of the public debt of North Carolina is in reality a commentary on the efforts of our General Assemblies through the years to provide essential services for the people, such as schools, roads, hospitals and clean water; but it also attests to the fact that we have managed our debt well, kept a balanced budget and, for more than half a century, have based our governmental operations on sound business principles.

North Carolina indeed has risen to a position of outstanding, dynamic leadership but with this leadership goes responsibility. Our taxpayers and our bondholders have every right to insist upon management of the "best quality."

Quality credit ratings are difficult to establish, yet very easy to lose.

Stability goes to the heart of character. In North Carolina, we have made a habit of good government! The past speaks well for North Carolina:

 North Carolina is one of only eight states currently enjoying the Triple-A status by two national rating agencies — Standard & Poor's and Moody's — and that's why it's "a cherished treasure." Read the list:

> California North Carolina Maryland South Carolina Missouri Utah

Missouri Utah New Jersey Virginia

North Carolina's Triple-A credit rating also provides the prerequisite for the prestigious rating (by at least one national service) for nine units of local government — more by far than any

other state. In fact, counting the State itself, roughly 25% of all Triple-A's nationwide are in North Carolina. Read the list:

Charlotte Wake County
Durham Winston-Salem
Durham County Durham and
Greensboro Wake County
Mecklenburg County
Raleigh District

In times past, when bold actions were necessary, the Governor and the General Assembly in joint action have responded to the challenges of the day:

- In 1987, following an analysis of existing needs and a bold and assertive recommendation of the Governor, the General Assembly designed, approved and funded a major public schools facilities construction program totaling some \$3 billion over a 10-year period using the proceeds of significant tax increases to underwrite the county assistance program on a pay-as-yougo basis.
- In 1989, at the request of the Governor, the General Assembly approved and funded an unprecedented pay-as-you-go highway improvement program of over \$9 billion to be implemented over a 13- to 15-year period again, using the proceeds of new and increased motor vehicle user taxes.

Responsible government comes from bold and assertive leadership.

In North Carolina, leadership is a tradition.

A STATE LOTTERY. Is It Glitter? Is It Gold?

Today, some 29 states operate lotteries. It is said that observers cannot decide if lottery approval is the result of liberal initiatives, supported by educators and fun-lovers, or whether they are the creation of flinthearted conservatives. Either way, a lottery imposed upon society provides lousy odds — whereby no one loses, except the poor. To the sponsoring state, the lottery is praised as a

pickpocket measure designed to import sucker money from gamblers in the surrounding states.

Is the lottery operation, to the sponsoring state, a wager or a tax? As a wager, the lottery ticket makes for a losing proposition because the participating states now skim off 40% to 50% in taxes and expenses before returning any prize money to the

winners. By contrast, it is said that the house-take at legalized casinos is no more than 10%. As a tax, the lottery ticket makes for even more of a losing proposition. To collect a dollar of revenue through the lottery, the states spend some 25 times what it would by general taxation.

The bottom line is that the lottery is premised on there being more losers than there are winners — an indefensible precept for State government in North Carolina.

If the discussion must persist, let's explore parimutuels. At least, the concept targets a totally different group of participants — not the poor — and, what's more, it promotes a few notable and worthy by-products: the State's recreational and agricultural economies.

SURPLUS GOVERNMENT PROPERTY: Think Private Development

The thought of leasing or selling governmentowned land to private developers may have great merit. Turning idle, unproductive and underutilized property into income-producing property just might be the thing to do to curb urban sprawl and to improve the tax base of our governmental entities.

The initial task is to inventory and identify the land parcels which are currently underutilized and then make a positive determination regarding the property's future use.

Whether to sell or to lease would depend upon the individual situation. The odds are, however, that some handsome annual returns are awaiting those

who take the initiative. The new revenue may be a significant factor in overcoming any budgetary shortfall.

Examples: surface parking lots transformed into underground parking or multilevel parking, with office and commercial properties above ground; the opportunity to build new school buildings, with the rental and lease proceeds from the old facilities used for bond principal and interest payments on the debt created to construct the new facilities; and, the sale of air rights over existing public streets and buildings.

The potential is literally unlimited. Have you suggestions or experiences to share with others?

CANCELLED STATE BONDS AND COUPONS: The Cachet of History

Taking a "hands on" approach, the Department of the State Treasurer is setting in motion plans to give North Carolina's high school students a concrete lesson in public finance through the use of "antique" — and cancelled — State bonds and coupons.

The State's financial obligation has been satisfied; therefore, the physical bonds and coupons have been returned to the Treasurer, have been perforated or otherwise cancelled, and are presently held in storage.

As a result of recent enabling legislation, the State Treasurer can, with the approval of the Council of State, distribute these cancelled bonds and coupons to the public schools, "to be used for educational and historical purposes."

The cancelled documents are colorful — handsomely engraved in many cases, and printed in several colors of ink. Also, they bear the names of several former Governors and other State officials, which gives them the cachet of history.

Their main value, however, lies in the possibility of using them to demonstrate to high school students the procedures used by the State to finance its operations when it issues bonds for such purposes as highway construction or for school facilities.

Accordingly, plans are now being developed by the Department of the Treasurer, in cooperation with

the State Department of Public Instruction and the Department of Cultural Resources, to put kits of these bonds and coupons, along with descriptive materials, in the hands of high school economics and civics teachers throughout the State.

HOUSING MADE AVAILABLE AND AFFORDABLE

Using the old saying about the "five-cent cigar," what we need in North Carolina is more affordable homes for the majority of our people.

Today, the average price of a new single-family home in most areas of the State has reached \$80,000 or more, and fewer and fewer people can afford home ownership. Nationwide, some fifteen years ago, it was said of the nonhome owners that about 45% of the American work force could afford a home; between five and ten years ago that figure had dropped to 20%. Now, the figure is said to be under 10%. It would be unreasonable to think that the situation in North Carolina would differ materially from the national averages.

The goal for affordable housing is reachable, given a joint, sustained effort of the public and private sectors.

First, we must establish a true partnership between State government and the counties and cities. The State simply cannot do it alone, even if there were adequate resources, which, of course, is not the case. The counties and cities must be the arm of the State in seeing that the job can and will be done.

Why involve the counties and cities? Again, the answer is that they are closer to the people and they are familiar with local needs. They can identify the land that is suitable and readily available at reasonable costs. They can be instrumental in land revitalization and they can bring together the parties to be involved in providing adequate housing. They can act as a liaison between private developers - which would include real estate and construction firms, financial institutions, architects and engineers — and the people who need and want affordable housing. They can cut the red tape that has dashed the plans of the few builder-developers who are available and willing to build such housing. In the final analysis, they can ensure the quality of new projects and aid the builders in providing the right development at the right locations and at the right time.

Where would State government fit into the picture? Currently, through the Housing Finance Agency, the State has the capacity and the legislative authority to issue tax-exempt bonds and use the proceeds for low-interest loans to low- and-moderateincome families. While it is true that the typical low-income family would not be able to repay a loan of any significant amount, it is obvious that some type of tax-supported loan program will be necessary if we are to have a meaningful impact on housing for those who cannot afford the full cost of housing at current-day prices. The fact is, if we were to take into consideration the tax revenues which come to the State, and the counties and cities, as a result of new housing activities - paid by builders, suppliers and realtors, for example the actual burden upon the public would be substantially minimized.

Finally, we must develop and agree upon a strategy for achieving our objective. Talk comes rather cheap and it is time now to initiate a plan of action. Realism is essential, however, because if we are to be successful in addressing the cost of housing, we must also adjust or modify certain housing standards. In other words, the traditional single-family home may not be in the future of every family.

Suppose we were to modify the old saying about the "five-cent cigar" and say that, "what this State needs today is a good \$40,000 owner-occupied dwelling — in a multi-family townhouse or condominium complex." Why a multi-family complex? The answer is that they offer the low- and moderate-income person or family a quality lifestyle at an affordable price.

Cost sharing — through low-rise townhouses/condominiums — among numerous owners drastically cuts costs. Owners would realize greater quality as a result of attractive and marketable housing, with amenities indistinguishable from those in private developments; all without the grim "low-income housing" look that so erodes the self-image of our less wealthy citizens.

For a low-cost housing program to work, we must have the involvement of civic-minded people willing to give a little time and effort to the areas from which they make their living. Once involved, they — the builders and construction firms, building supply establishments, financial institutions, architects, engineers and lawyers — would find it tremendously gratifying to see their own efforts

responsible for the orderly and effective growth of their communities. They would have the opportunity to be creative in the required design, construction, financial and legal arrangements.

The concept will work, but it will require hard work and sacrifice. No less is needed!

TO SERVE THE PEOPLE WISELY AND WELL. . .

That's the goal of any progressive-minded public official.

In managing the people's business, we in State government must seize opportunity as it arises, and this means that we strive to use money and time in such a way that we achieve the best financial results possible, because:

- Time is Money
- Money is Opportunity, and
- The Name of the Game is Money Management.

Handling the State's money is deserving of devoted attention. Stretching tax dollars through effective cash management is a worthy objective — every dollar the State gains by enhanced performance is a dollar that does not need to be extracted from the taxpayer or borrowed in the financial markets.

Money is one of the major assets of State government. Its management has never been more important.

MANAGING FOR THE FUTURE

For thousands of State and local government employees in North Carolina, the security of their retirement income 10, 20, or even 30 years from now will be determined, in part, by how well the State's pension funds are managed today.

Picture a successful investment management operation, controlling billions of dollars worth of stocks, bonds and other assets. Your mind's eye would probably see a bevy of portfolio managers, working in the hectic, supercharged atmosphere of one of Wall Street's legendary prestigious financial power houses.

Try again!

How about twelve staffers who work in a thirdfloor wing of the State Treasurer's Offices in the Albemarle Building in Raleigh?

This group, headed by C. Douglas Chappell, Deputy Treasurer and Director of the Department's Investment and Banking Division, may not fit the stereotype, but on a day-to-day basis they directly manage more than \$20 billion of State funds, which includes some \$17 billion in pension funds. At that level, Chappell's group is actually larger, in terms of the volume of investments that it manages, than many of the nation's leading financial management firms. Organizationally, the Chappell group has specialists who handle a diversity of investments — bonds, stocks, real estate, venture capital and a variety of sophisticated income-producing programs.

The investments are handled in-house except for the \$4.5 billion portfolio of equity securities which is assigned to eight outside financial advisors, the \$210 million of investments in real estate trusts, and the \$18 million in venture capital, which also are managed by outside organizations. But both the internal and external groups share a common goal: to build the strongest pension fund possible so that the State's retirees can be assured of receiving their retirement checks when they are ready for them.

How solid is that assurance?

In terms of size, the North Carolina pension funds rank among the largest in the United States. In January 1990, Pension & Investment Age showed the North Carolina fund as being the thirteenth largest public pension fund and the twentieth largest of all pension funds — public and private — in the country.

The North Carolina pension fund assets increased from \$1.1 billion in 1970, to \$4.7 billion in 1980, to \$11.4 billion in 1987, and to \$16.6 billion at June 30, 1990.

Interest rates were near their peak in 1980 and the State's pension funds generated in that year a cash yield of 8.79%. Rates did, in fact, peak in 1981; yet, the cash yield has continued to move higher in recent years as a result of active and aggressive management. While current interest rates have fallen below the average rate earned by the portfolio, it is anticipated that the cash yield will also decline. The cash yield for the pension fund investments for the year ended June 30, 1990 was 9.09%, generating income at the rate of some \$1.43 billion annually — amounting to more money than was contributed to the pension funds by both the employer and the employees.

Currently, over 463,000 active and retired employees are covered under four separate pension plans — one for school teachers and State employees, one for the State's judiciary, one for local government employees and another for legislative members. Of these, 86,745 now receive monthly retirement checks, totaling some \$681 million annually.

Thanks to the North Carolina constitution, which says that the pension funds can be used for no purpose other than for investment and for the payment of retirement benefits, these assets have been set aside and are held in trust to fulfill the State's commitment that the moneys to pay the benefits will still be there when due. The State Treasurer, as an

independently elected official, is custodian of the assets and thus is the designated trustee for seeing that they will indeed be there when they are needed.

The Treasurer's first responsibility is to protect the pensions earned by the State's public employees. With this goal being paramount, the objective is to achieve the maximum investment return. The fund's current condition is mainly the result of the development and implementation of an investment policy that stresses diversification, especially in the types of investments.

At June 30, 1990, 27.1% of the State's pension funds was invested in stocks, trust accounts, and qualifying mutual funds, while some 70.9% was in long-term fixed income securities, 1.3% in real estate trusts, .1% in venture capital partnerships and .6% in short-term investments.

This kind of diversified portfolio has helped cushion pension-related investments against abrupt changes in the financial marketplace. It has also contributed to the impressive and consistent rates of return earned by the funds.

The real challenge for the State's investment staff is to control the risks and improve returns by diversifying the asset mixture. Because a retired employee no longer works for the State doesn't mean that the State no longer works for the retired employee.

Long before an employee decides to retire, the State Treasurer and his investment staff are already working for the employees, implementing an investment strategy that will protect the pensions they will earn.

The investment strategy has been carefully thought out, with a view towards the long-term, and it is one that is obviously working well — a strategy designed with the employee in mind.

Said one retiree: "It gives me a sense of pride in the job that I performed during my years with the State." And, said a new State employee, "One of my basic interests was in knowing that there was already in place a well-run pension plan."

STATE AND LOCAL RETIREMENT CONTRIBUTIONS FOR CALENDAR YEAR 1989

Governmental Entity	Employee Contributions	Employer Contributions	<u>Total</u>
Schools	\$161,712,677	\$252,002,255	\$413,714,932
Community Colleges	13,827,797	21,548,317	35,376,114
Universities	38,240,948	59,592,144	97,833,092
Other State Agencies	89,260,207	139,061,225	228,321,432
Local Governments	98,118,964	93,761,942	191,880,906
Totals	\$401,160,593	\$565,965,883	\$967,126,476

A CHORUS OF CALLS FOR REFORM IN DEPOSIT INSURANCE

The heavy burden which the nation's taxpayers now face as a result of the countrywide savings and loan debacle has — not unnaturally — focused attention on North Carolina institutions as well. Although the soundness of almost all of North Carolina's commercial banks and savings institutions far exceeds that of those in many other parts of the nation, there is nevertheless concern also for the future soundness and safety of these Tar Heel institutions.

In the nation at large, there was obvious dereliction of duty on the part of Congress in providing a government-backed guarantee of 100% up to deposit amounts of \$100,000, while at the same time not providing regulation or oversight of the institutions to ensure that safe practices, in lending and otherwise, were followed. The depositing public, knowing that deposits were guaranteed, did not feel the need to try to find out how sound individual institutions actually were, though there were widely varying levels of accountability and efficiency.

People are now waking up to the fact that more information is needed — in North Carolina as elsewhere. Recently, the <u>American Banker</u> published a closely reasoned proposal by Dr. Robert Eisenbeis of the University of North Carolina School of Business, in which he calls for swift reform of bank deposit insurance, and sets forth means by which this could be achieved.

Dr. John Gamble of Lincolnton, a former member of the North Carolina General Assembly, has called for a grading system which would evaluate and reflect upon the soundness of commercial banks and savings institutions in North Carolina.

Dr. Gamble's suggestion would entail changes in State law in order to permit the compilation and publication of such an analysis. This, then, leaves action on this particular proposal up to a forthcoming session of the General Assembly. It is quite obvious that almost no one believes that the present situation should remain unchanged. The question is: What action should be taken?

THE TREASURER'S EX-OFFICIO DUTIES

By virtue of the Constitution, the Treasurer serves as a member of the Council of State and the State Board of Education. By statute, the Treasurer serves as Chairman of the Local Government Commission; the Banking Commission; the Tax Review Board; the Board of Trustees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System; and, the Higher Education Facilities Finance Agency. Also by statute, the Treasurer serves as a

member of the State Board of Community Colleges; the North Carolina Housing Partners; the State Government Information Technology Commission; the Capital Planning Commission; the Board of Trustees of the Firemen's Pension Fund; the Board of Directors of the State's Deferred Compensation Plan; and, the North Carolina Art Society.

The commitment continues. . .

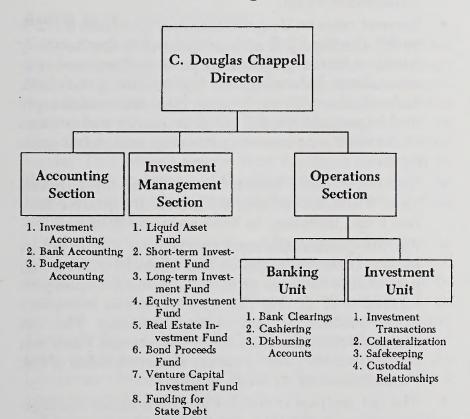
Investment and Banking Division

The Investment and Banking Division is responsible for three of the State Treasurer's primary functions:

- 1. Acting as the State's Banker by receiving and disbursing State moneys.
- 2. Administering the State's Cash Management and Trust Fund Programs as both custodian and investment officer.
- 3. Arranging for the prompt payment of principal and interest on the State's general obligation debt as it matures.

These functions are both constitutional and statutory in origin.

Table of Organization



Operational Highlights

- Assets under management at June 30, 1990 amounted to \$20.1 billion, based on book value.
- Earnings on all funds under management exceeded \$1.6 billion for a net realized return of 9.00%.
- Assets of the Retirement Trust Funds were approximately \$16.6 billion at June 30, 1990, having produced a net realized return of 9.09%.
- Investment earnings for the retirement funds are greater than the combined employer and employee contributions.
- The Equity Investment Fund exceeded its benchmark for the fiscal year ended June 30, 1990. The Fund posted a 16.94% total return versus 16.30% for the S&P 500.

Investment Management

The book value of assets under management amounted to \$20.1 billion at June 30, 1990. The assets generated a net realized rate of return of $9.00\,\%$ and increased at the rate of \$5.4 million per calendar day during the fiscal year.

Assets of the four Retirement Systems form the greater part of the funds under management and total \$16.6 billion. Investment earnings for the retirement funds are greater than the combined employer and employee contributions. Earnings for the year ended June 30, 1990 amounted to \$1.4 billion and produced a net realized rate of return of 9.09%.

Outlined on the following page are quarterly recaps of the bond and stock markets, along with the investment results in those markets, by the State Treasurer's investment staff.

- Short-term interest rates were mixed during the quarter, due to the uncertainty of economic growth. The net realized return for the Short-term Investment Fund was slightly higher than those of the previous quarter.
- Interest rates on longer maturities declined in the first part of the quarter and finished at higher levels than the prior quarter. The rise in rates was attributable to the perception of a successful "soft landing" and continued economic expansion. The net realized return for the Long-term Investment Fund moved lower. At quarter end, this Fund had increased in book value by \$254 million.
- For the quarter, the stock market was 252.76 points higher as measured by the Dow Jones industrial average. Financial and consumer growth stocks were the strongest sectors. Lower interest rates in the first part of the quarter created a bullish atmosphere. The net realized return for the Equity Investment Fund was higher than the prior quarter. At quarter end, this Fund had increased in book value by \$105 million.
- The net realized return for all funds under management averaged 9.12% for the quarter compared to 9.17% for the prior quarter.

October - December, 1989

- Short-term interest rates were lower at the start of the quarter and remained basically flat for the remainder of the quarter. The rally was due to weaker than expected employment data and a stronger dollar. Later in the quarter, the bond market remained unchanged and quiet as the direction of the economy remained on hold. The net realized return for the Short-term Investment Fund was slightly lower
- Interest rates on longer maturities followed the same pattern as short-term interest rates. The net realized return for the Long-term Investment Fund moved higher. At quarter end, this Fund had increased in book value by \$282 million.
- For the quarter, the stock market was 60.38 points higher. Utility and energy stocks dominated the quarter's return with consumer cyclical and interest sensitive stocks posting lower results. The net realized return for the Equity Investment Fund was higher than the prior quarter. By quarter end, this Fund had increased in book value by \$182 million. (For the decade of the 1980's, the S&P 500 returned over 400% to investors.)
- The net realized return for all funds under management averaged 9.22% for the quarter compared to 9.12% for the prior quarter.

- Interest rates on both short and long maturities rose sharply in the United States during January as the bond market declined as a result of substantially higher interest rates in Japan and Europe. During the remainder of the quarter, the bond market was relatively unchanged.
- The net realized return for the Short-term Investment Fund was lower.
- The net realized return for the Long-term Investment Fund moved slightly higher. At quarter end, this Fund had increased in book value by \$266 million.
- For the quarter, the stock market was 45.99 points lower. Smaller cap stocks outperformed the larger issues. Cyclical stocks performed well as investors began to place a low probability on recession. The net realized return for the Equity Investment Fund was lower than the prior quarter. By quarter end, the book value of this Fund had increased by \$143 million.
- The net realized return for all funds under management averaged 9.02% for the quarter compared to 9.22% for the prior quarter.

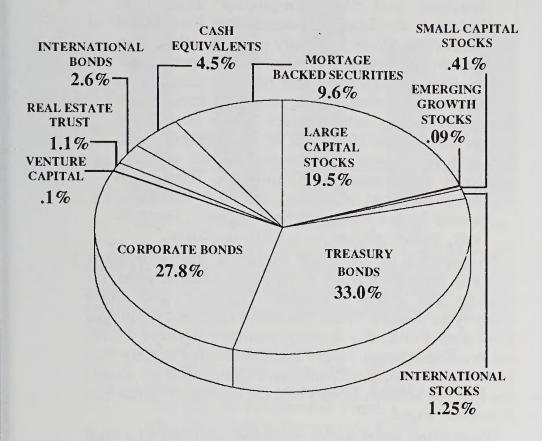
April - June, 1990

- Short-term interest rates were lower by quarter end as was the net realized return for the Short-term Investment Fund.
- Interest rates on longer maturities rose from 8 1/2% to 9% during April as bond prices fell dramatically based on further inflationary news and renewed concern about balancing the Federal budget deficit. Later in the quarter, interest rates reversed sharply and improved from the previous quarter end on news of weaker employment, housing and retail sales figures.
- The net realized return for the Long-term Investment Fund moved slightly lower. By quarter end, this Fund increased in book value by \$308 million.
- For the quarter, the stock market was 173.48 points higher. Investors began looking at stocks with strong, predictable earnings growth. Consumer staples performed well during the quarter, while secondary issues continued their strong showing. The net realized return for the Equity Investment Fund was the same as the prior quarter. The book value of this Fund increased by \$171 million.
- The net realized return for all funds under management averaged 9.00% for the quarter compared to the 9.02% for the prior quarter.

Fiscal year 1989-90 was another good year for our investment programs. We are grateful for the accomplishments of our associates, the guidance of the State Treasurer, the support of the General Assembly and the confidence of the taxpayers. With a spirit of cooperation, we have every reason to believe the future is very bright for the investment programs.

Chart 1

TYPE OF INVESTMENTS OWNED BY FUNDS UNDER MANAGEMENT At June 30



The Basic Functions

Acting as the State's Banker

The General Assembly of North Carolina has provided a centralized system for managing the flow of moneys collected and disbursed by all State departments, agencies, institutions, and universities. These various entities maintain accounts with the State Treasurer, similiar to corporations maintaining accounts with commercial banks. This system assures that the State itself will be the prime beneficiary of the flow of funds through the commercial banking system in the course of conducting State business.

Receiving State Moneys — All revenues collected by a State entity on behalf of the State must be deposited either directly with the State Treasurer's Office or be deposited with a designated bank, to be credited to an account established in the State Treasurer's name. Through the utilization of a "cash concentration system," these funds are concentrated for immediate use by the Investment Management Section, until disbursed by a State entity at some later date.

Disbursing State Moneys — North Carolina utilizes a warrant system to disburse funds. In order for a State entity to disburse funds from its accounts maintained with the State Treasurer, it issues warrants against its account, made payable to an eligible payee. The warrants bear the State Treasurer's unique ABA routing transit number and are payable at par, through the Federal Reserve System. Warrants issued by the various

State entities are deposited by the recipients into the commercial banking system and are ultimately presented to the State Treasurer's Office for payment. Daily warrant clearings are accepted from the Federal Reserve Bank as well as from banks desiring to present warrants directly to the State Treasurer as opposed to clearing these items through the Federal Reserve System. The main advantage of the warrant system is that the banker's "float," and the earnings thereon, are captured for the State.

Administering the State's Cash Management and Trust Fund Investment Programs

The Treasurer is the State's chief investment officer. As such, he is directed to "establish, maintain, administer, manage and operate" investment programs, pursuant to the applicable statutes, for all funds on deposit. In so doing, the State Treasurer "shall have full power as a fiduciary" and shall manage the investment programs so that the assets "may be readily converted into cash as needed."

General Investment Objective — The objective for all investment programs is to generate maximum income consistent with safety of principal. Prudence in discharging this fiduciary obligation requires that all investments be reviewed continuously, so that opportunities in the secondary markets to improve the quality and/or the income stream are not overlooked.

Operating Policy — In conducting the activities of the Investment and Banking Division, it is the Treasurer's policy to do business within the State of North Carolina, whenever it can be done at no disadvantage to the Cash Management or the Trust Fund Programs. As an example, whenever either program participates as a buyer in an underwriting of securities, fixed-income or equity, purchases are allocated among the known in-state participating underwriters.

The Cash Management Program

The Division computes daily the excess cash which is available for investment, a figure derived from the ending balances of the previous day, plus or minus the net difference between the certified deposits and the disbursing warrants for the current day. This excess cash in the State Treasurer's central clearing accounts is then invested in short-term securities as authorized by statute.

Because the Treasurer's cash balances are ultimately subject to disbursement upon presentation of valid warrants, the primary considerations in making investments are safety and liquidity; the secondary consideration is income. The invested assets of the Cash Management Program fluctuated between \$3.0 billion and \$3.7 billion during the fiscal year. Revenues from the Cash Management Program were approximately \$288 million in the fiscal year ended June 30, 1990. Of this total, \$150 million was earned for the General and Highway Funds. This brings the total investment earnings for these funds to \$2.4 billion since the inception of the Cash Management Program in 1949. Table 4 shows the earnings for the General Fund and Highway Fund since 1949.

As part of the Cash Management Program, the Treasurer may invest in Certificates of Deposit and Saving Certificates issued by North Carolina banks and savings and loan associations. As of June 30, 1990, \$317 million was invested in these North Carolina financial institutions.

The Treasurer sets the interest rate, which by State law may not be less than the return available in the market on U.S. Government and/or Agency securities of comparable maturity. Current practice is to purchase such certificates with a term of six months, and to schedule maturities weekly, in order to afford a measure of liquidity. Chart 2 indicates the fluctuation in interest rates set for Certificates of Deposit and Saving Certificates during the fiscal year.

Chart 2

INTEREST RATES ON CERTIFICATES OF DEPOSITS AND SAVING CERTIFICATES July 1, 1989 - June 30, 1990

Rate (%)	Effective Date	Rate (%)	Effective Date
9	06-14-89	8 1/8	11-15-89
8 7/8	07-05-89	8	11-29-89
8 5/8	07-12-89	8 1/8	12-06-89
8 1/2	07-19-89	8	12-20-89
8 3/8	08-02-89	8 1/8	01-17-90
8 1/2	08-09-89	8 1/4	02-14-90
8 3/4	08-23-89	8 3/8	03-14-90
8 5/8	08-30-89	8 1/2	04-18-90
8 3/4	09-06-89	8 3/8	04-25-90
8 5/8	09-13-89	8 5/8	05-02-90
8 1/2	09-20-89	8 3/8	05-16-90
8 5/8	09-27-89	8 1/4	05-23-90
8 1/2	10-11-89	8 1/8	06-06-90
8 1/4	10-18-89		
		*Certifica	ite rates ranged
		fr	om 8% to 9%.

Certificates of Deposit and Saving Certificates

	<u>June 30, 1990</u>	June 30, 1989
Certificates Renewed	315	342
New Certificates Issued	43	38
Certificates Paid Off	47	66
Face Value of Certificates	\$317,386,000	\$426,000,000

The Trust Fund Investment Program

The Trust Funds are composed primarily of the holdings of four Retirement Systems, the two largest being the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System. More than 98% of all the Trust Fund Assets under management belong to the Retirement Systems.

The Retirement Systems' investment integrity is held inviolate by Article V, Section 6(2) of the North Carolina Constitution, which provides:

"Neither the General Assembly nor any public officer, employee, or agency shall use or authorize to be used any part of the funds of the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System for any purpose other than retirement system benefits and purposes, administrative expenses, and refunds; except that retirement system funds may be invested as authorized by law, subject to the investment limitation that the funds of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System shall not be applied, diverted, loaned to, or used by the State, any State agency, State officer, public officer, or public employee."

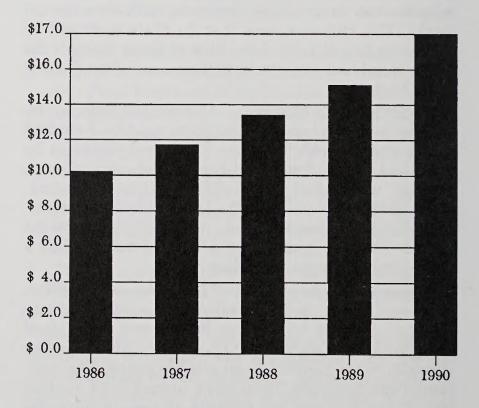
In addition to the Trust Funds of the Retirement Systems, numerous other Trust Funds are managed, including the North Carolina Teachers' and State Employees' Benefit Trust, the North Carolina Employee Disability Fund, the State Treasurer's Escheat Fund, various Educational Trust Funds, the State Property Fire Insurance Fund, the Workmen's Compensation Fund, the Insured Student Loan Program and the Wildlife Endowment Fund.

Trust Fund assets under management reached a total of \$17.0 billion on June 30, 1990. Approximately \$16.6 billion of this amount belongs to the Retirement Systems.

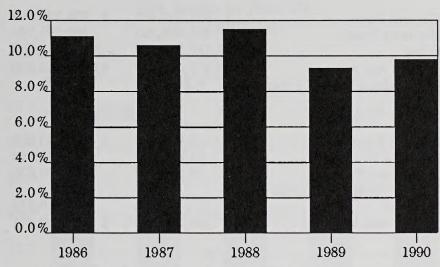
Charts 3 and 4 show the Invested Funds and the Realized Rate of Return since 1986.

Chart 3

TRUST FUND INVESTMENTS Invested Funds at June 30 (\$ in Billions)



TRUST FUND INVESTMENTS Realized Rate of Return at June 30 (Percentage)



The Investment objectives of both the Cash Management and the Trust Fund programs are achieved through participation in one or more investment funds or "pools" established by the Treasurer as authorized by State law. These are:

The Liquid Asset Fund

The Short-term Investment Fund

The Long-term Investment Fund

The Equity Investment Fund

The Real Estate Investment Fund

The Bond Proceeds Funds

The Venture Capital Investment Fund

The Trust Fund Investment Program participates in the Investment pools, in accordance with the statutory authority and needs of the individual funds. The cost of the investment management function is shared equitably in the ratio of each fund's participation.

Charts 5 and 6 illustrate the Distribution of Assets by Investment Fund and Distribution of Equity by Participants.

DISTRIBUTION OF ASSETS BY INVESTMENT FUND At June 30

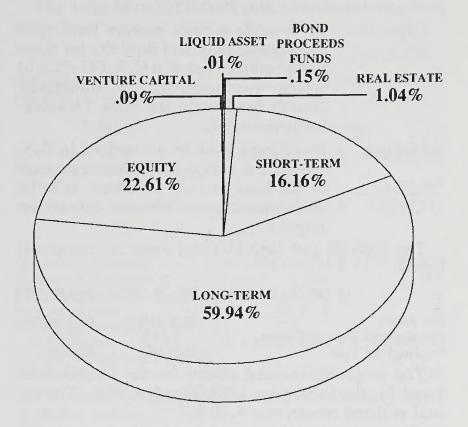
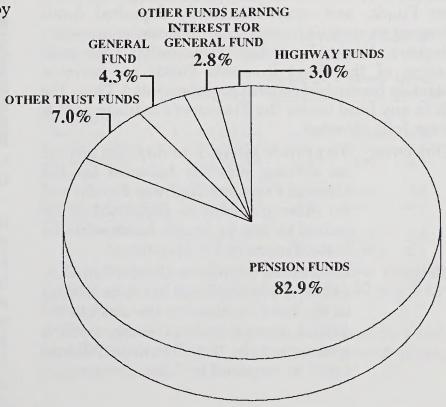


Chart 6

DISTRIBUTION OF EQUITY BY PARTICIPANTS At June 30



Investment Activity

Liquid Asset Fund — The State Treasurer maintains this fund (established in 1982) as an investment alternative available to local public authorities, local governmental units and local ABC boards of the State having custody of any funds not required by law to be deposited with and invested by the State Treasurer.

Objective: To provide a daily income fund with maximum safety and liquidity for those

public entities listed in G.S. 147-69.3(b) which are permitted to voluntarily deposit funds with the State Treasurer

for investment.

Method: Investment vehicles authorized in G.S. 147-69.1 are employed to invest the cash of the fund in such a manner as to be

of the fund in such a manner as to be able to meet any withdrawal demand on request.

The 1989-90 and 1988-89 fiscal years are compared below:

	June 30, 1990	June 30, 1989
Net Assets	\$2.6 million	\$2.1 million
Net Realized Rate of Return	8.49%	8.35%
Earnings for Year	\$235,667	\$335,464

The projected realized return for the Liquid Asset Fund for the fiscal year 1989-90 was 8.35%. The actual realized return was 8.49%.

The projected realized return for the fiscal year ending June 30, 1991, is 7.75%.

Short-term Investment Fund — The Cash Management Program (established in 1949), because of its primary need for safety and liquidity, is totally invested in the Short-term Investment Fund. Other participants include the cash balances of the Liquid Asset, Longterm, Equity, Real Estate and Venture Capital Investment Funds, and some voluntarily deposited funds belonging to various boards, commissions, community colleges and school administrative units. (The cash balances of the Bond Proceeds Funds are invested separately because of federal requirements.) Thus, the cash in any fund under the Treasurer's management is always fully invested.

Objective: To provide safety, liquidity and income

on average monthly balances for the General Fund and Highway Funds, and for other participants permitted or required by law to deposit funds with the

State Treasurer for investment.

Method: Investment vehicles authorized in G.S. 147-69.1 are employed to invest all cash

in the fund in excess of the amount required to meet current needs, in such manner as to be "readily convertible into

cash" as required by law.

The 1989-90 and 1988-89 fiscal years are compared below:

	June 30, 1990	June 30, 1989	
Participants	Ass	ets	
General Fund Highway Funds Other Total Net Assets Net Realized Rate of Return	\$ 859,039,402 591,655,395 2,120,358,463 \$3,571,053,260 8.54%	\$ 858,748,899 389,791,764 2,282,412,567 \$3,530,953,230 8.60%	
Participants	Net Earnings		
General Fund Highway Funds Retirement Funds Various Special and Trust Funds Total Net Earnings	\$ 115,933,013 34,002,597 10,947,449 $\frac{127,541,714}{$288,424,773}$	\$ 139,553,252 30,558,023 11,279,653	

		Activity		
		June 30, 1990		June 30, 1989
	No.	Par Value	No.	Par Value
Purchases	937	\$36,378,328,943	874	\$26,640,020,600
Sales	449	34,323,856,943	389	24,528,475,600
Maturities	487	2,278,172,000	504	2,380,831,000
Exchanges	113	4,410,000,000	96	7,550,700,000
(Certificat	e of De	eposit activity show	wn as p	part of Chart 2.)

Listed below is a breakdown of investments in the Short-term Investment Fund as of June 30, 1990:

	Par Value	Percentage of Portfolio		Average Maturity (Days)
Repurchase Agreements	478,400,000	13.60 %	8.17%	3
Commercial Paper	43,000,000	1.22	8.19	22
BAs	7,000,000	.20	8.32	2
CDs & Sav. Cert.	317,386,000	9.03	8.36	99
UST Bills	50,000,000	1.42	8.63	3
USTN	2,253,000,000	64.08	7.96	938
US Agencies	285,000,000	8.11	9.03	1,443
Corporates	82,000,000	2.34	9.64	592
	3,515,786,000	100 %	8.73%	772

The projected realized return for the Short-term Investment Fund for the fiscal year 1989-90 was 8.45%. The actual realized return was 8.54%.

There are two factors that impact realized investment returns. They are the balances available for investment and the level of interest rates, neither of which we control. Additionally, of course, factors that affect the return for the Short-term Investment Fund in which the General and Highway Funds are participants also include the following:

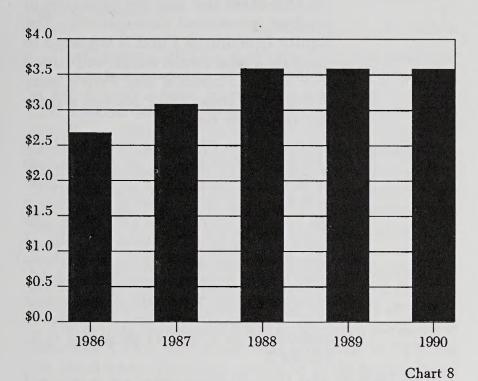
- 1) The investments which the Short-term Investment Fund portfolio may be holding on a particular date may be earning at different levels from current interest rates. For example, if our investments were made when interest rates were higher, we would continue to earn at the higher rates of return, even though current interest rates may be lower. This happens in reverse as well.
- 2) The current levels of interest rates at which new investments can be made fluctuate according to the shape of the yield curve and the spreads between different types of eligible securities.

The projected realized return for the fiscal year ending June 30, 1991, is 8.30%.

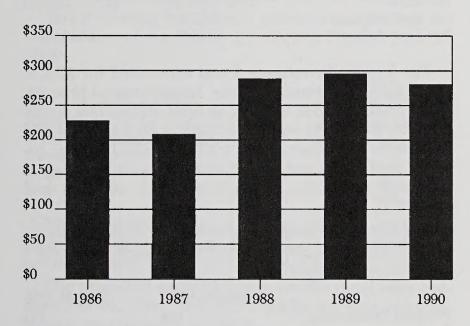
Charts 7 and 8 show the net assets and the realized income of the Short-term Investment Fund since 1986.

Chart 5

SHORT-TERM INVESTMENT FUND Net Assets at June 30 (\$ In Billions)



SHORT-TERM INVESTMENT FUND
Realized Income at June 30
(\$ In Millions)



Long-term Investment Fund — The Investment Program represented by this fund was started in 1941 on behalf of pension and other trust funds and produced a realized return of 9.45% during the fiscal year.

Objective: To provide the maximum safe return on the fixed-income investments of the North Carolina Retirement systems, and other participants required or permitted to deposit funds with the State Treasurer for investment, in conformity with the concepts of fiduciary responsibility and prudent investment management.

Method:

Fixed-income vehicles authorized in G.S. 147-69.2 are employed to invest the cash of the fund, and to exchange the assets of the fund as the market permits in order to improve the income and/or quality of the fund.

The 1989-90 and 1988-89 fiscal years are compared below:

	June 30, 1990	June 30, 1989	
Net Assets Net Realized Rate of Return	\$12,040,861,458 9.45%	8 \$10,854,814,718 9.68%	
Participants	Net Earnings		
Retirement Funds Various Special and Trust	\$ 1,060,267,224	4 \$ 982,605,736	
Funds	18,581,683	3 13,303,108	
Total Net Earnings Distributed	\$ 1,078,848,90	7 \$ 995,908,844	
Ac	tivity		
Par Value, Purchases		4 \$ 1,097,287,918	
Number of Purchases	25		
Par Value, Sales	\$ 59,690,08	1 \$ 0	
Number of Sales		6 0	
Par Value, Bond Exchange			
Transactions	\$ 3,524,478,00	0 \$ 9,195,990,000	
Number of Exchange Proposals			
Executed	17	8 347	

The quality of the portfolio remains extremely high, as shown below:

Average Maturity	June 30, 1990	June 30, 1989
AAA	77%	76%
AA	18	18
A	1	1
BA*	4	5
	100%	100%
Average Maturity	22.1 years	21.7 years

*Securities purchased when rated A or higher. Downgraded as a result of leveraged buy-out activity.

Listed below is a description of investments in the Long-term Investment Fund as of June 30, 1990:

	Par Value	Percentage of Portfolio		Average Maturity (Years)
US Treasury				
Securities	\$ 4,018,921,000	31.9%	9.53%	16.9
US Agency-GNMA	2,024,893,716	16.1	10.16	26.5
Corporate Bonds	5,652,571,909	44.8	9.37	25.3
US Agency				
Insured/Guaranteed	360,813,748	2.9	10.30	7.8
International Securities	541,702,000	4.2	10.18	21.2
Long-term CD's and				
Saving Certificates	11,150,000	.1	11.96	4.6
	\$12,610,052,373	100 %	9.60%	22.1

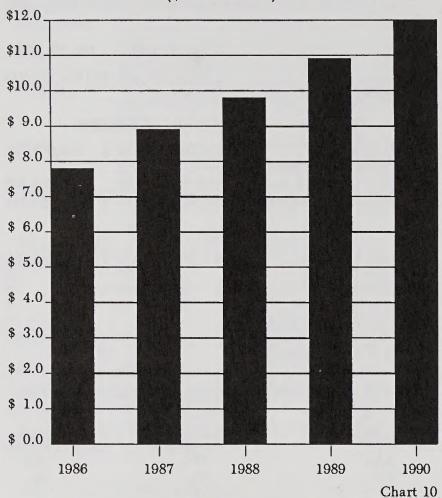
The projected realized return for the Long-term Investment Fund for the fiscal year 1989-90 was 9.45%. The actual realized return was 9.45%.

The projected realized return for the fiscal year ending June 30, 1991, is $9.40\,\%$, while the long-term actuarial requirement is $7.50\,\%$.

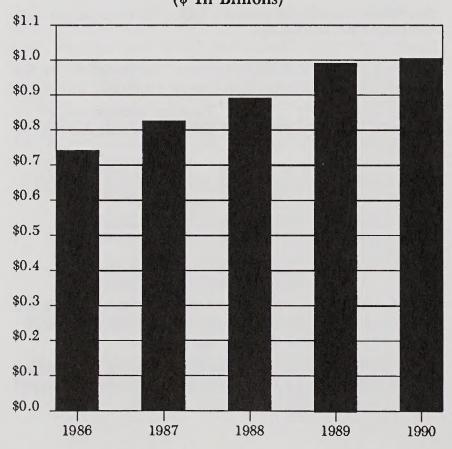
Charts 9 and 10 show the net assets and the realized income of the Long-term Investment Fund since 1986.

Chart 9

Net Assets at June 30 (\$ In Billions)



LONG-TERM INVESTMENT FUND Realized Income as of June 30 (\$ In Billions)



Equity Investment Fund — The Equity Investment Program (established in 1961) is provided solely for participation by the North Carolina Retirement Systems.

Overall Objective:

To provide long-term growth of capital while observing the requirements of applicable State law and the principles of prudent investment management. The Equity Investment Fund is expected to generate a total return which will exceed that of the Standard and Poor's composite Stock Index (S&P 500) on a trailing 36 month basis.

Method:

Each portfolio within the Fund will have specific objectives and an appropriate benchmark against which its performance will be compared. To achieve the Overall Investment Objective, the Fund invests its assets in a portfolio of common stocks and convertible debentures and in shares of beneficial interest in various trusts using a diversified group of investment advisors and managers as authorized in G.S. 147-69.2 and G.S. 147-69.3.

The 1989-90 and 1988-89 fiscal years are compared below:

	<u>June 30, 1990</u>	June 30, 1989		
Net Assets	\$4,501,828,246	\$3,892,816,193		
Net Realized Return	8.35%	8.51%		
Net Total Return	16.94%	18.93%		

The Equity Investment Fund accounted for 27.1% of the total Retirement Systems' Investments at June 30, 1990, based on book value. The fund utilizes five equity advisors who make recommendations on purchases and sales with execution of the trades handled by our inhouse staff. The fund also retains nine equity managers with full discretion concerning equity selection and execution.

The Equity Investment Fund activity (transactions by our staff) for fiscal years 1989-90 and 1988-89 fiscal years are compared below:

	June 30, 1990	June 30, 1989		
Purchase Transactions	958	431		
Purchase Amount	\$1,094,640,605	\$499,565,071		
Sale Transactions	575	335		
Sale Amount	\$805,780,759	\$431,207,230		

During the year, the equity trading staff executed trades for the five equity advisors totaling 29.9 million shares of stock. Commissions averaged 4.7 cents per share, versus 4.8 cents per share for the prior year. This average commission is a blending of in-house "book crosses," discount brokerage, and full service brokerage. Our definition of full service is the commitment of and use of a firm's capital to facilitate a trade. We are not buyers of equity research. Naturally our advisors and

Chart 11

managers are buyers of some "street" research. Commissions were paid to 32 broker/dealer firms (20 with instate offices).

Option activity for fiscal years 1989-90 and 1988-89 are compared below:

	June 30, 1990	June 30, 1989		
Opening Transactions	33	70		
Amount	\$1,390,932	\$ 793,932		

The Covered-Call Option Writing Program generated net collected premiums of \$1.2 million. Net premiums of \$26.4 million have been generated by the Covered-Call Option Writing Program since its inception on March 1, 1980. The five equity advisors write and execute covered-calls using the Division's trading staff. Premiums generated by the managers on Covered-Call Options are accounted for separately. Net profit for the year resulted in earnings of \$1.2 million. The difference between the collected premiums and the earnings from the Option Writing Program is attributed to an accounting policy which treats premiums written on options that are subsequently exercised as capital gains, and does not recognize revenue for options that have not expired.

The Equity Investment Fund generated a net realized return of 8.35% and a net total return of 16.94% for the fiscal year. The total return of 16.94% compared favorably versus a 16.30% return for the S&P 500. The five equity advisors generated net capital gains of \$123 million during the fiscal year, while the outside equity managers generated net capital gains of \$22 million.

The following breakdown provides insight into the composition of the Equity Investment Fund at June 30, 1990:

Type of Equity	Percent of Equity Investment Fund
Large Capitalization Domestic Stocks	85.3%
Small Capitalization Stocks	1.8
Emerging Growth Stocks	.4
International Stocks	5.5
Cash	7.0
	100 %

The projected realized return for the Equity Investment Fund for the fiscal year 1989-90 was 8.25%. The actual realized return was 8.35%.

The projected realized return for the fiscal year ending June 30, 1991, is 7.20%, while the long-term actuarial requirement is 7.50%.

Charts 11 and 12 show the net assets and realized income of the Equity Investment Fund.

EQUITY INVESTMENT FUND
Net Assets at June 30
(\$ In Billions)

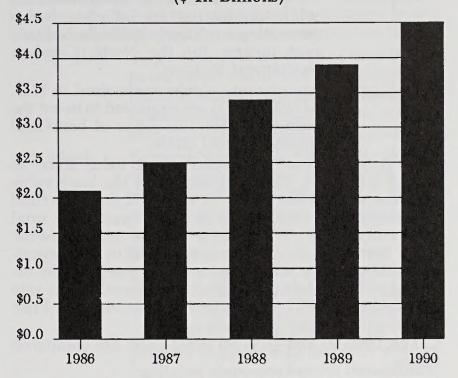
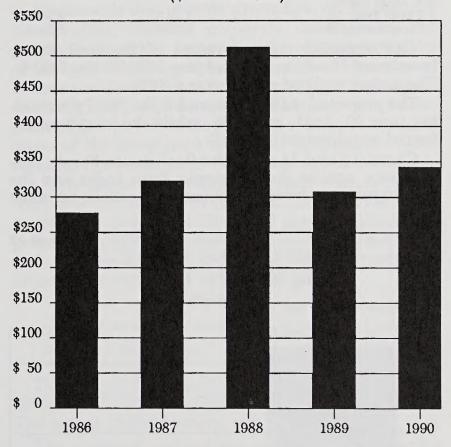


Chart 12

EQUITY INVESTMENT FUND
Realized Income at June 30
(\$ In Millions)



Real Estate Investment Fund — The Real Estate Investment Program (established in 1984) is provided exclusively for participation by the North Carolina Retirement Systems.

Objective: To provide additional diversification,

while serving as an inflation hedge generating a relatively stable flow of current income for the North Carolina

Retirement Systems.

Method: Investment vehicles authorized in G.S. 147-69.2(b)(7) are employed to invest the

cash of the fund in shares of beneficial

interest in real estate.

At June 30, 1990, the fund's book value stood at \$209.4 million, a 4.96% increase over the book value recorded at June 30, 1989. For the fiscal year, the fund generated a net cash return of 4.86% and a net total return of 3.07%. While these returns are somewhat lower than those of other funds managed by the Department, the fund is achieving its stated objectives by offering additional diversification and exceeding the rate of inflation (4.10%) as measured by the Consumer Price Index on a trailing 60 month basis.

The 1989-90 and 1988-89 fiscal years are compared below:

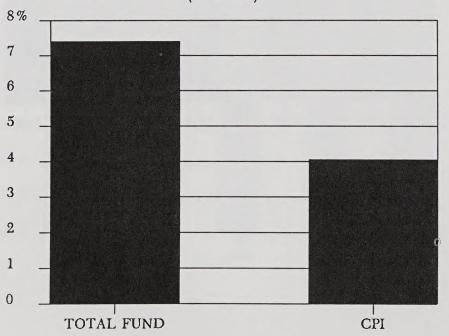
	June 30, 1990	June 30, 1989		
Net Assets Net Realized Return	\$209,392,348	\$199,475,554		
Fiscal Year Inception to Date	4.86% 7.16%	6.07 % 7.48 %		
Net Total Return Fiscal Year Inception to Date	3.04 <i>%</i> 7.39 <i>%</i>	4.93 % 8.24 %		

The projected realized return of the Real Estate Investment Fund for the fiscal year 1989-90 was 6.00%. The actual realized return was 4.86%.

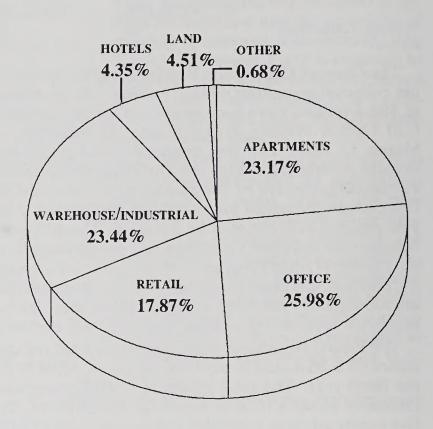
The projected realized return for the fiscal year ending June 30, 1991, is 6.15%, while the long-term actuarial requirement is 7.50%.

Charts 13 and 14 show the Real Estate Fund's performance against the Consumer Price Index and the various property types that comprise the make-up of the Fund.

TOTAL FUND VS. CPI
Trailing 60 Months Total Return
(Percent)



REAL ESTATE INVESTMENTS By Property Type



Charts 15 and 16 show the net assets and realized income of the Real Estate Investment Fund.

Chart 15

REAL ESTATE INVESTMENT FUND Net Assets at June 30 (\$ In Millions)

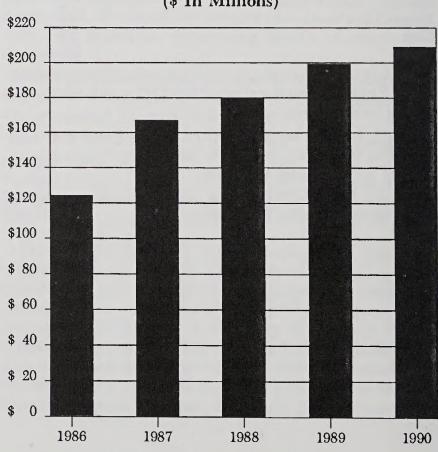
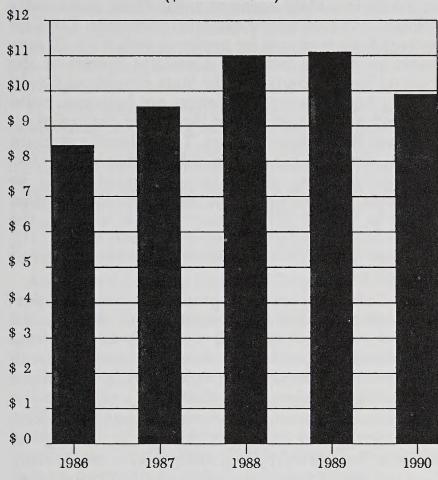


Chart 16

Method:

REAL ESTATE INVESTMENT FUND Realized Income at June 30 (\$ In Millions)



Bond Proceeds Fund — The Clean Water Bond Proceeds Fund was established June 23, 1987, in order to segregate funds of the Clean Water Bonds, Series 1987. This was done in order to comply with IRS regulations on bond arbitrage. The Capital Improvement Bond Proceeds Fund was established May 23, 1989, in order to segregate funds of the Capital Improvement Bonds, Series 1989, for the same reasons.

Objective: To provide maximum income to the Fund within the parameters of the IRS regulations on bond arbitrage.

Method: Investment vehicles authorized in G.S. 147-69.1 are employed to invest all cash in the fund in excess of the amount required to meet current needs, in such manner as to be "readily convertible into cash" as needed.

At June 30, 1990, assets totaled \$18,754,223 and \$10,785,692 for the Clean Water and Capital Improvement Bond Proceeds Funds respectively.

The projected realized return for the combined Bond Proceeds Fund for the fiscal year 1989-90 was 8.30%. The actual realized return was 8.49%.

The projected realized return for the fiscal year ending June 30, 1991, is 7.75%.

Venture Capital Investment Fund — The Venture Capital Investment Program (established in 1988) is provided for participation by the North Carolina Retirement Systems. (The 1990 Short Session of the North Carolina General Assembly changed the governing statutes, which had restricted these investments to the General and Highway Funds, on a retroactive basis.)

Objective: To provide over a period of time (seven to ten years) a source of potentially high realized income. The risk is tempered by diversification in industry type, state of corporate development and location.

General Statute 147-69.2(b)(9) authorizes investment in obligations and securities of The North Carolina Enterprise Corporation, or of a limited partnership in which The North Carolina Enterprise Corporation is the only general partner, not to exceed twenty million dollars (\$20,000,000). General Statute 147-69.2(b)(10) authorizes investment in limited partnerships whose primary purpose is to invest in venture capital or corporate buyout transactions, not to exceed thirty million dollars (\$30,000,000).

The Fund's strategy is to establish and maintain a broadly diversified venture capital portfolio comprised of investments that provide diversification by industry classification, state of corporate development and geographic location. Investments in venture capital are monitored over a long-time horizon, due to the amount of time and development necessary to grow and expand relatively new, small companies. This long-term investment philosophy dictates that cash returns in the early stages of the investment cycle will be minimal. Additionally, it is anticipated that losses will be realized in the early stages of investing as certain venture capital companies do not meet projections. However, successful investments in the portfolio should generate returns that prove to be quite satisfactory in relation to the risk taken and the returns generated by more traditional investments.

	June 30, 1990	June 30, 1989
Net Assets	\$17,922,075	\$8,367,111
Net Realized Rate of Return	.23 %	.99 %
Net Total Return	(.12%)	(24.69%)

The projected realized return for the Venture Capital Investment Fund for the fiscal year 1989-90 was 3.75%. The actual realized return was .23%.

The projected realized return for fiscal year ending June 30, 1991, is .25 %, while the long-term actuarial requirement is 7.5 %.

Supplemental Income Program — Additional supplemental income resulting from the active management of the Investment Funds for the fiscal year totaled \$4.5 million. Earnings from securities lending since inception of the program reached \$33 million during the year. The Supplemental Income Program generated income that was 66% greater than the entire operating cost of the

Investment and Banking Division, which was \$2,665,031.

Investment F	un	d.
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Source of Earnings	Sł	nort-term	Long-term	Equity	Bond Proceeds	Totals
Securities Lending	\$	976,323	\$2,043,151	\$ 33,365	\$ 0	\$3,052,839
Option Writing		0	0	1,247,612	0	1,247,612
Fail Balance Earnings		30,724	81,691	13,142	9,695	135,252
Dividend Reinvestment		0	0	30,636	0	30,636
Miscellaneous		0	1,468	18,867	0	20,335
Grand Totals	\$1	,007,047	\$2,126,310	\$1,343,622	\$9,695	\$4,486,674

Payment of the State's Debt

As the State's chief financial officer, the Treasurer is charged with the responsibility of making timely payment of principal and interest on North Carolina's General Obligation debt, a function vital to the maintenance of our "AAA" rating.

The Investment Management and Operations Sections arrange to have "readily available funds" in the hands of the paying-agent banks on due dates. Complete information as to amounts of principal and interest due, by issue, is furnished by the State and Local Government Finance Division.

Through these arrangements, the bondholders have access to their money as promised; meanwhile, the funds are invested for the benefit of the State until the last possible moment.

Other Activities

Accounting — The Accounting Section of the Division performs the accounting function for the Treasurer as it relates to his investment and banking responsibilities. The accounting for the transactions of each investment fund is somewhat similar to the accounting for mutual funds in the private industry sector. Detailed participant accounting ledgers are maintained for each investment fund so that each participant's units of ownership can be accounted for and earnings can be distributed according to the rules and regulations governing each fund. A general ledger, subsidiary ledgers and journals for each investment fund are maintained by the Section. It is from these accounting records that the Section prepares interim financial statements and other management information reports upon request.

The Accounting Section maintains ledgers that are critical to the State's system of financial checks and balances. The appropriations, receipts and disbursements of all State agencies and institutions are recorded in the budgetary ledgers. Totals by transaction type are balanced with the Office of the State Controller at the end of each month. A bank ledger is maintained to account for all banking transactions that result from the State Treasurer's function of acting as banker for all State agencies, and institutions and as the State's chief investment officer. These transactions include the deposit of funds into the State Treasurer's State-wide Depository Accounts, warrant clearings and investment transactions. The bank ledger is extremely important as it is used to reconcile depository and central clearing account bank

statements and to monitor the bank account balances on a daily basis.

Operations/Banking — The Banking Unit of the Operations Section provides a disbursing account service to the various State agencies, institutions, community colleges, and local school administrative units. The Unit accepts State warrants for payment daily from 10 area banks as well as from the Charlotte Branch of the Federal Reserve Bank and the State Employees Credit Union. As the banks' cash letters are balanced, valid warrants are charged against the proper disbursing accounts of the various agencies. The disbursing account service, similar to the commercial checking account service provided by the banking community to its customers, renders statements, along with the cancelled warrants, to some 600 active accounts. In addition, the Unit provides magnetic tapes of warrants paid to 163 of these accounts to facilitate automatic account reconciliation.

The number of warrants processed by the Unit during fiscal year 1989-90 increased some 5% over the number processed during the prior fiscal year, from 15,681,013 to 16,444,653. Activity associated with maintenance of the accounts included the processing of 1,328 alleged forgeries and 31,284 stop payments.

The Banking Unit also provides a depository service for State agencies located in Raleigh. By having the agencies deposit their daily receipts with the Banking Unit instead of into a depository bank, the Department's check-sorting equipment can be utilized to sort the items by banks on which they are drawn. The resulting qualified "on-us" deposits are then presented directly to the individual banks, thereby obtaining same day availability. An increase of one day's availability on approximately \$2 million is obtained daily by utilizing this method.

Operations/Investment — The Investment Unit of the Operations Section is primarily responsible for the completion of all investment transactions after they have been entered into by the Investment Management Section, which entails consummating the receipt and delivery of the securities traded versus payment. Associated with this function is the timely collection of all interest and dividend payments, as well as all maturing securities. In order to take advantage of the modern concepts of book-entry and central depositories, the custodian functions for all eligible securities are performed through contractual arrangements by The Bank of New York. The Bank of New York utilizes both the Depository Trust Company, the Participant Trust Company, and the Federal Reserve Bank book-entry system. These arrangements enable the State to participate actively in the securities lending market.

The Unit also monitors the collateralization of public deposits in North Carolina banks and savings and loan associations. Collateralization is required for deposits exceeding any insurance coverage provided by the Bank Insurance Fund (BIF) in the case of banks, or by the Savings Associations Insurance Fund (SAIF) in the case of savings institutions. At June 30, 1990, some 100

depositories had securities with a total market value of over \$2 billion pledged to the State Treasurer through 18 different escrow agents. Fifty-nine of these depositories were "Option 2" institutions, utilizing a program where their individual accounts with the State Treasurer covered the deposits of local governmental entities across the State. Of the total securities pledged at June 30, 1990, approximately 25% were to secure State deposits.

In other areas of responsibility, the Unit provides safekeeping services for securities held as "good faith deposits" for other State agencies, including the Departments of Agriculture, Public Instruction and Revenue. These securities amounted to \$4.2 million at June 30, 1990. A statement of securities held in trust is shown in Table 3.

Projects Completed and/or In Progress

Automated Clearing House — Progress continues in expanding our utilization of the Automated Clearing House (ACH). The Department has offered retirees the option of receiving their monthly retirement benefits through direct deposit since 1977. The participation rate reached an all time high this year with some 42,000 retirees (50%) now receiving their payments through this method. Including the other six major payroll centers in the State, over 100,000 people now receive their monthly pay/benefits through direct deposit, amounting to total payments of over \$1.2 billion annually.

The availability of PC software has allowed us to expand programs not appropriate for mainframe applications. "ACH debits" are being utilized to concentrate funds deposited in the 48 banks that are not a part of the already established cash concentration system. Additionally, ACH debits are utilized to collect interest coming due on certificates of deposit and savings certificates from some 90 banks and savings institutions across the State. Plans to make vendor payments through "ACH credits" are well underway. State agencies scheduled to begin using the application include the N.C. Housing Finance Agency and the Division of Employment and Training.

Tax Payments by EFT — With 14 other states implementing some type of program to collect corporate taxes by electronic funds transfer (EFT), the Department of Revenue, the State Controller's Office, and the State Treasurer's Office have been exploring the possibilities on behalf of the State. Such a program would enhance the State's Cash Management Program and offer corporate taxpayers the ability to utilize modern banking technology in making tax payments. A task force has been established. A tentative target date for such a program is January 1992.

Credit Cards — A preliminary study on the feasibility of State agencies accepting payments by credit cards was performed this year. While most universities accept credit card payments, the associated bank fees are paid from "non-State"funds. At this time, it has been determined that there is no authority or source from which to pay the bank fees for State agencies. The acceptance

of credit card payments would however offer certain taxpayers a convenient option. One such application could be for license plate fees paid to the Division of Motor Vehicles, or to any of its many license plate agencies. If public demand dictates, two options can be explored. One is for the State to fund the additional cost. The other is to find a way in which the extra cost can be passed on to the card user in the form of a surcharge. Further study is needed.

Government National Mortgage Association (GNMA) Accounting — As of July 1, 1990, changes in the assumptions concerning the accounting for GNMA principal prepayments were made. Rather than estimating prepayment rates on the basis of coupon rate and maturity date, a zero prepayment rate is assumed for all GNMA's. Capital gains are recorded on all principal prepayments. These changes will result in an actual yield for GNMA's which reflects true market conditions rather than assumed prepayment rates.

State and Local Government Finance Division

The State and Local Government Finance Division is organized to provide the State Treasurer, the Local Government Commission, the North Carolina Solid Waste Management Capital Projects Financing Agency, and the North Carolina Educational Facilities Finance Agency with staff assistance in fulfilling their respective statutory functions. The Division is organized along functional lines into two major groups of services: Debt Management and Fiscal Management.

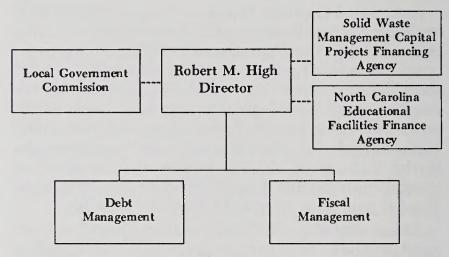
Assistance is rendered to local governments and public authorities in North Carolina on behalf of the Local Government Commission. The Local Government Commission, staffed by the Department of State Treasurer, approves the creation of debt for all units of local government and assists these units with fiscal management. The Commission is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the Lieutenant Governor, and one by the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission.

The North Carolina Solid Waste Management Capital Projects Financing Agency provides a loan fund for financing the capital expenses incurred in implementing local and regional solid waste management programs. The Agency Board of Directors consists of five members: the State Treasurer and three others by appointment (two by the Governor and two by the General Assembly upon the recommendation of one each by the Speaker of the House of Representatives and the President Pro Tempore of the Senate). Administrative staff for the Agency is provided by the Department of State Treasurer.

Private institutions of higher education receive financing assistance through bonds issued by the North Carolina Educational Facilities Finance Agency. The Agency Board of Directors is composed of seven members: the State Treasurer, the State Auditor, and five others by appointment (three by the Governor, one by the President of the Senate, and one by the Speaker of the House of Representatives). The administrative staff for the Agency is provided by the Department of State Treasurer.

The Division handles the sale and delivery of all State debt and monitors the repayment of State and local government debt.

Table of Organization



Operational Highlights

- Competitive tax-exempt general obligation bond sales exceeded \$690 million with rates averaging 43 basis points under the National Bond Buyer's Index, which resulted in savings in excess of \$30.7 million over the life of these bonds.
- Information was prepared for presentation to the bond rating agencies as a result of concerns over the State's budget shortfall. The State continues to retain its excellent bond rating.
- Capital Appreciation Bonds (CABs) continued to be promoted in bond sales to provide investors with a means to fund educational expenses or other future needs. During the year, in excess of \$3.1 million in CABs were issued.
- The North Carolina Educational Facilities Finance Agency sold over \$83 million in tax-exempt bonds, affording considerable savings in interest costs for Wake Forest University, Guilford College, and High Point College.
- Industrial revenue bonds were issued totaling over \$318 million. This included an issue sold for The North Carolina Industrial Facilities and Pollution Control Financing Authority which provided seven small and medium-sized manufacturing firms with over \$16 million in tax-exempt financing.
- Seven low-interest rate clean water revolving loans and grants were awarded to local governments for the construction of water and sewer systems.

- The North Carolina Solid Waste Management Capital Projects Financing Agency was organized, and the staff began efforts to develop a program to assist local governments with solid waste capital needs.
- The issuance of the first special obligation bond was authorized by the Local Government Commission for the City of High Point a \$6.2 million project for solid waste disposal.
- Informational memoranda on various topics were prepared for units of government and Certified Public Accountants.
- For the second successive year, the staff prepared the Fiscal Summary of North Carolina Counties in cooperation with the North Carolina Association of County Commissioners. The first edition of a similar publication, Fiscal Summary of North Carolina Municipalities, was prepared in conjunction with the North Carolina League of Municipalities. The purpose of these publications is to provide comparative financial information to county and municipal officials for their use in budgeting and in comparing their own unit's financial results to those of other units.
- The staff reviewed single audit reports for approximately 700 units of local government because of the requirements of the Federal and State Single Audit Acts.
- The first annual "State Treasurer's Governmental Accounting/Financial Management Awards Program" was instituted. Twenty-seven entries were received from municipalities, counties, boards of education, and miscellaneous districts and authorities. Winners were governmental units demonstrating the most improvement in accounting or financial management programs, systems, methods, and procedures.

Capital Planning and Finance

Many surveys, studies, and other research projects have identified the growing backlog of infrastructure needs in the State in many areas such as solid waste disposal, jails, schools, water and wastewater, and highways. This problem is not unique to North Carolina, but is part of a national trend. Prompt action on these needs is essential if the State is to maintain the quality of life for its citizens and continue to attract business development as part of its enviable economic development efforts.

To assist in addressing this problem, the 1989 Session of the General Assembly enacted two significant pieces of legislation to provide flexibility to local governments so they can address these essential infrastructure requirements. In H.B. 960, the General Assembly clarified the authority of local governments to enter installment purchase contracts to construct or obtain capital assets by pledging a security interest in the property being acquired. Also, S.B. 115 will enable local governments to use special obligation bonds that pledge uncommitted nontax revenues to finance the acquisition of solid waste disposal facilities. Neither of these financing techniques pledges the taxing power of a local government that is acquiring an asset; therefore, neither requires a voter referendum. By enacting this legislation, the General

Assembly is both acknowledging the State's infrastructure needs and assisting units of government in promptly meeting these needs.

The two financing mechanisms discussed above add to an increasingly complex array of financing alternatives available to local governments for utilization in financing their capital needs. This is a change from the traditional "pay-as-you-go" and general obligation and revenue bond financing used by most North Carolina local governments. Growing infrastructure needs and the large number of financing alternatives necessitate the use of long-term capital planning and the careful consideration by local government officials of the appropriate financing alternative to use in a particular situation.

Capital planning and finance require two key actions, the first of which is the preparation of a comprehensive capital improvements plan. A large number of local governments in North Carolina already prepare five- to ten-year capital plans. When used correctly, these capital plans can assist local government officials in identifying the projects they wish to undertake and in scheduling the outlays for the projects. Pulling together the cash flows from the designated projects into a single comprehensive capital plan highlights the capital outlays a local government must make in each fiscal year. Use of a long-term capital plan will assist a local government in avoiding the evaluation of a single project at a time and is the essential first step in preparing a comprehensive financing plan.

After projects have been scheduled, financing alternatives can then be matched to the projects to complete the capital financing plan. In evaluating alternatives, local officials should determine the combination of financing methods that will incur the least total cost to the local government. This will require the preparation and analysis of the cash flows both from the projects and the alternative financing methods. Officials should evaluate several alternatives rather than deciding on a single financing mechanism before any analysis is performed. Many considerations that are unique to a unit will affect the selection of a financing alternative, such as the amount of funds on hand, the size of the project, the life of the asset, the political environment, etc. These are just some examples of areas that should be carefully considered.

This entire process is complex and requires careful planning; however, local officials can simplify the process if they will remember a few key guidelines. First, the financial markets are changing and are more complex; consequently, long-term planning is essential. Next, the many alternative financing arrangements each have unique characteristics, making them appropriate for some types of projects, but inappropriate in other situations. Local officials should not try to use the same financing method in every situation. Another important item to remember is that the citizens of North Carolina have historically approved a very large percentage of general obligation bond referenda. For most large projects, general obligation bonds will be the least costly

financing alternative; therefore, local officials should be extremely cautious in selecting another financing method if the sole purpose is to avoid a vote of their citizens on the obligation. Most projects and referenda will be approved if they are adequately explained to the voters. Finally, officials should beware of complex financing mechanisms that they do not fully understand.

In the future, the Division's staff will be taking a more active role in assisting local governments in developing capital improvement programs and in evaluating various financing alternatives. A new environment exists, and the staff is ready to assist local governments in any way possible to evaluate and select the least costly and most appropriate method of financing their infrastructure needs.

The State of Tax-Exempt Financing

As one of the last few remaining tax shelters, governmental bonds continue to be an attractive means of financing for local governments. Without tax-exempt financing the interest rate charged on borrowed funds could increase from 1 to 3%, which would ultimately be paid by utility customers and taxpayers.

Market conditions were favorable for tax-exempt debt during the fiscal year. The Bond Buyer's Index of 20 General Obligation Bonds ranged from a low of 6.86% on August 3, 1989, to a high of 7.54% on May 3, 1990.

Basic Functions

Debt Management — The Division issues and monitors all State debt secured by a pledge of the taxing power of the State. After the approval of a bond issue and with the assistance of other State agencies, the Division determines the cash needs, plans for the repayment of debt (maturity schedules), and schedules bond sales at the most appropriate time. An official statement describing the bond issue and other required disclosures about the State is prepared with the advice and cooperation of bond counsel. Finally, the Division handles the actual sale and delivery of the bonds, maintains the State bond records and register of bonds, and monitors the debt service payments. At June 30, 1990, the State had general obligation bonds outstanding of \$588 million. (See Tables 7 and 8.)

The Division also is responsible for the authorization and sale of revenue bonds for the North Carolina Medical Care Commission, the Municipal Power Agencies, the North Carolina Educational Facilities Finance Agency, the North Carolina Housing Finance Agency, the North Carolina Solid Waste Management Capital Projects Financing Agency, and the North Carolina Industrial Facilities and Pollution Control Financing Authority. These bonds are secured only by the specific revenues pledged in payment thereof. The staff works with these agencies' personnel in determining the feasibility and scheduling of the bond offering, in structuring the issue and the underlying security documents, and in preparing the data that must be presented to the Local Government Commission for its approval.

The Division assists the State Treasurer in representing the State in all presentations to Moody's Investors Service, Inc., and Standard and Poor's Corporation, the two national bond rating agencies used by the State and local governmental units in North Carolina. As a result of shortfalls in budgeted revenues in fiscal year 1989-90, Standard and Poor's Corporation placed the State on its CreditWatch list. Information was prepared and presented to both agencies that explained the situation. After the General Assembly addressed the shortfalls by amending the budget, Standard and Poor's removed the State from CreditWatch. North Carolina continues to have a "Triple-A" rating, the highest rating attainable. This favorable rating has enabled the State to sell its bonds at an interest rate considerably below the Bond Buyer's Index, thereby providing tremendous savings to North Carolina's taxpayers.

Probably the most important function of the Division is the approval, sale, and delivery of all North Carolina local government bonds and notes. The Division staff counsels and assists local governmental units in determining the necessity of the project, the size of the issue, and the most expedient form of financing. A review is made of the debt management policies of the unit, the effect of the financing on the tax rate, and the unit's compliance with The Local Government Budget and Fiscal Control Act. Sale dates are scheduled depending on the need for the money, the anticipated interest rates, and the times when the bonds can be sold with a minimum of competition. The staff strives to resolve all problems and determine that all statutory requirements are met before applications are presented to the Local Government Commission for approval.

After approval is granted, the governmental unit and its bond counsel assist the staff in gathering and assembling information for an official statement, which is mailed to a large group of investment bankers nationwide. The general obligation bonds are awarded through the competitive bid process on the basis of lowest total net interest cost to the governmental unit.

After the sale, the staff delivers and validates the definitive bonds and ensures that the moneys are promptly transferred from the buying brokers to the governmental unit.

In addition to bond sales, the staff assists the units in selling certain short-term debt obligations. These may be bond anticipation notes to provide interim funding of projects until the definitive bonds are sold, or they may be other notes secured by specific pledges of taxes, grants, or future revenues. Authorization for short-term debt obligations also is based upon Local Government Commission approval.

Debt records are maintained for all units on principal and interest payments coming due in the current and future years. All debt service payments are monitored through a system of monthly reports.

At June 30, 1990, authorized and unissued general obligation bonds for local governments amounted to

\$1,477,636,400, and general obligation bonds outstanding amounted to \$3,358,015,607.17. (See Table 7.) During the 1989-90 fiscal year, bonds and notes were sold in the amount of \$861,523,405. This is more fully described in Chart 17. Of the \$726,209,000 general obligation bonds marketed for local units, \$690,670,000 were sold competitively at tax-exempt rates averaging approximately 43 basis points below the national average

(according to the Bond Buyer's Index), thus saving these local units approximately \$2.9 million in interest costs for the first year. Over the life of these bonds, the issuers are expected to save in excess of \$30.7 million in interest costs. This is a result, in part, of the Division's successful efforts in maintaining and upgrading the bond ratings of the State and local units and in monitoring the fiscal soundness of the individual local units.

Chart 17

PURPOSES FOR WHICH LOCAL GOVERNMENTS SOLD BONDS AND NOTES

Fiscal Year 1989-90

					Total
	Schools	<u>Utilities</u>	Other	No.	Amount
G. O. Bonds					
Counties	\$343,075,000	\$ 22,550,000	\$131,325,000	33	\$496,950,000
Municipalities		97,895,000	118,000,000	40	215,895,000
Districts and Authorities	_	13,364,000	<u> </u>	_9	13,364,000
Total G. O. Bonds	343,075,000	133,809,000	249,325,000	82	726,209,000
Revenue Bonds					
Counties		_	40,308,281	3	40,308,281
Municipalities		2,125,000	<u> </u>	3	2,125,000
Districts and Authorities	<u>—</u>	<u> </u>	40,565,124	2	40,565,124
Total Revenue Bonds	<u> </u>	2,125,000	80,873,405	8	82,998,405
Notes					
Bond Anticipation Notes	8,725,000	33,451,000	10,140,000	45	52,316,000
Total Notes	8,725,000	33,451,000	10,140,000	<u>45</u>	52,316,000
Total Bonds and Notes	\$351,800,000	<u>\$169,385,000</u>	\$340,338,405	<u>135</u>	\$861,523,405

Chart 18

DEBT MANAGEMENT ACTIVITIES - STATE AND LOCAL (In Millions of Dollars)

	FY 1987 - 88		FY 1988 - 89		F	Y 1989 - 90
	No.	Amt.	No.	Amt.	No.	Amt.
Bonds Sold for State						
G. O. Bonds (General Fund)	_	\$ —	1	\$ 20.5	_	\$ —
G. O. Bonds (General Refunding)			_	_		-
G. O. Bonds (Highway Refunding)		_	_	<u></u>		_
Revenue Bonds (Battleship)			_			
Total	0	0	1	20.5	0	0
Bonds and Notes Sold for Local Governmental Units:				-		
G. O. Bonds	174	653.1	101	482.2	79	726.2
Revenue Bonds	11	113.5	11	171.5	7	83.0
Notes	45	57.5	40	53.1	44	52.3
Total	230	824.1	152	706.8	130	861.5
Special Obligation Bonds Sold for				11		
Medical Care Commission:						
Revenue Bonds	6	130.5	5	127.9	5	67.3
Housing Finance Agency:						
Revenue Bonds	2	79.0	1	75.0	2	112.9
Power Agencies:						
Revenue Bonds	2	831.2	1	429.6	. —	_
Industrial Facilities and Pollution						
Control Financing Authorities:						
Revenue Bonds	14	78.1	31	190.2	38	318.1
Educational Facilities Finance Agency:					1740	
Revenue Bonds		76.3	_1	30.0	3	83.5
Total Special Obligation Bonds	28	1,195.1	<u>39</u>	852.7	48	581.8
Grand Total	258	<u>\$2,019.2</u>	192	\$1,580.0	178	\$1,443.3

The Division staff also assists in the sale of revenue bonds, which must have the Commission's approval in order to be issued by municipalities, joint municipal electric power agencies, and county industrial facilities and pollution control financing authorities. These bonds are secured only by specific revenue pledged in payment of the bonds. (See Chart 18.)

Another responsibility of the Division staff is assisting units that desire to enter into agreements to finance the lease or installment purchase of capital assets. Local Government Commission approval is required when the contract or agreement extends for five or more years; and obligates the unit to pay sums of money to another, without regard to whether the payee is a party to the contract; and obligates the unit to the extent of \$500,000 or a sum equal to one tenth of one percent (1/10 of 1%) of the appraised value of property subject to taxation by the unit, whichever is less. Local Government Commission approval also is required when the contract or agreement involves the construction or repair of fixtures or improvements on real property and is not exempted in G.S. 159-148(b).

Before approving such agreements, the Local Government Commission must find that the proposed project is necessary and expedient, the proposed undertaking cannot be economically financed by a bond issue, and the contract will not require an excessive increase in taxes. During the fiscal year ended June 30, 1990, the Local Government Commission approved contracts or other agreements totaling \$82.7 million. (See Table 6.)

The Division also serves as staff to the North Carolina Educational Facilities Finance Agency, an agency established by the General Assembly in 1986 authorized to finance or refinance, construct, provide, or acquire higher educational facilities. This Agency affords private institutions of higher education in the State a measure of assistance and an alternative method for providing needed facilities and structures.

Following initial contact from a college/university, the staff generally begins the process of determining project feasibility and desirability with a preliminary conference. Upon receipt of an application, the financial capability and responsibility of the college/university is reviewed through ratio and trend analysis. The staff presents the project and its recommendations to the seven-member North Carolina Educational Facilities Finance Agency and subsequently to the Local Government Commission for approval. (All debt issued by the Agency also must be approved by the Local Government Commission.)

Fiscal Management — An important function of this Division is monitoring certain fiscal and accounting standards prescribed for local governmental units by The Local Government Budget and Fiscal Control Act. As a part of its role in assisting local units and monitoring their fiscal programs, the Division provides assistance to them in following generally accepted accounting principles. The Local Government Budget and Fiscal Control Act requires each unit of local government to have its accounts audited annually by a Certified Public

Accountant or by an accountant certified by the Commission as qualified to audit local government accounts. Because of recent changes in the field of governmental accounting and the enactment of the Federal Single Audit Act and the State Single Audit Act, the Division has had a particularly complex task in monitoring annual audit reports for compliance with generally accepted accounting principles and single audit disclosure requirements.

To carry out these responsibilities, continuing assistance is provided to the independent auditors of local governments, particularly in the area of professional education. Several members of the staff serve on the Governmental Accounting and Auditing Committee of the North Carolina Association of Certified Public Accountants (NCACPA), as well as other related NCACPA committees. The staff helps prepare and instruct 13 continuing professional education courses in governmental accounting and auditing. These are each presented several times annually to independent auditors through the auspices of the NCACPA. In addition, all exposure drafts of the Governmental Accounting Standards Board are analyzed, and the staff's comments and recommendations on these drafts are submitted to this Board.

In providing assistance to local governments, units are counseled in accounting systems and internal controls, treasury and cash management, budget preparation, changes in laws and regulations, and investment policies and procedures. On-site assistance is furnished to local governments with regard to financial and accounting systems and management services. Educational programs, in the form of seminars or classes, also are provided in order to accomplish these tasks. Staff members make presentations throughout the year at various workshops sponsored by the Institute of Government; the finance officers' associations; the Municipal Treasurers' Association; and numerous other county, municipal, and school organizations.

The Division has expanded its assistance role by maintaining computerized databases of historical information from local government audit reports, city and county Annual Financial Information Reports, and Reports of Cash Balance. The information collected is used in a variety of ways to automate operations and enhance the assistance provided to local governments. The files also are utilized in special projects that benefit the operations of the State. Upon request, data is provided to such organizations as the U.S. Bureau of the Census, the N.C. Department of Revenue, the General Assembly, the N.C. League of Municipalities, the Institute of Government, and the N.C. Association of County Commissioners to assist these groups in their activities.

Significant Accomplishments

Debt Management

Installment and Lease Purchase Agreements — A guide was prepared to assist units contemplating use of this method of financing. The number of units and dollar volume increased from 20 units with a total of \$38,403,527 in 1988-89 to 46 units with a total of \$82,698,757 in 1989-90. (See Table 6.)

Solid Waste Management Capital Projects Financing Agency — The North Carolina Solid Waste Management Capital Projects Financing Agency, created in 1989 by the General Assembly and contained within the Department of State Treasurer, was organized in 1990. The purpose of the Agency and the Solid Waste Management Loan Fund is to issue Agency revenue bonds in order to make loans to units of local government or provide other means of assisting with the financing of solid waste and recycling facilities. The staff developed bylaws and rules that were adopted by the Agency. Due to the State's revenue shortfall, the \$5 million appropriation to the Agency was frozen and later withdrawn before the Agency could develop a project. The General Assembly appropriated \$900,000 to the Agency in 1990. The staff will work with the Division of Health Services and financial advisors in 1990/91 to assist the Agency Directors in developing the most effective way to utilize the funds available to provide solid waste collection and disposal for the citizens of North Carolina.

Capital Appreciation Bonds — Legislation passed by the General Assembly in 1987 authorized the sale of these bonds with a primary goal of assisting people wishing to provide funds to educate children. The bonds, which can be purchased at a discount, accumulate value until maturity rather than paying interest each year. Investors have actively pursued these bonds because of their attractive features for educational and other purposes. During the year, two bond issues included a total of more than \$3.1 million in capital appreciation bonds.

Volume Cap Allocation — Legislation was approved by the 1987 Session of the General Assembly to maintain a State pool of the federal volume cap from which projects could be approved, thus giving maximum flexibility in use of the volume cap. For the calendar year 1989, the State was allotted \$324 million to use for private activity bonds. In 1990 the volume cap will be \$328 million plus adjustments for changes in population.

"Triple-A" General Obligation Bond Ratings — A "Triple-A" general obligation bond rating is the highest attainable and reflects strengths in debt position, economic base, administrative variables, and financial performance. Standard & Poor's rating agency has assigned "Triple-A" general obligation long-term debt ratings to states, counties, and cities throughout the entire United States; and approximately one out of every four of those are North Carolina units. The following North Carolina units have "Triple-A" bond ratings issued by Standard & Poor's: the State of North Carolina; the counties of Durham, Mecklenburg, and Wake; and the cities of Charlotte, Durham, Greensboro, Raleigh, and Winston-Salem. In addition, the Special Airport District of Durham and Wake Counties also enjoys a "Triple-A" rating. To quote from Standard & Poor's Credit Surveys: "The 'AAA' General Obligation rating for cities, counties, and states indicates that very high standards have been achieved and maintained."

Industrial Revenue Bonds — The use of industrial revenue bonds has contributed to North Carolina's impressive record of industrial development. These bonds

provide tax-exempt financing and are used to attract manufacturing industries to the State. Since 1976, there have been 810 issues totaling over \$3.4 billion. In the fiscal year ended June 30, 1990, 38 issues of Industrial Revenue and Pollution Control Facilities Bonds were approved for a total of \$318,083,336. The Tax Reform Act of 1986 significantly affected their issuance this year. December was especially intense as firms concluded issues that were planned in anticipation of a possible December "sunset" on federal legislation providing for the issuance of industrial revenue bonds. Preapplication conferences also were considerably more frequent at fiscal year end, as interested firms positioned themselves to be able to issue debt before another proposed "sunset" on September 30. Planning was being carried out to accommodate both "pool" participants and "stand alone" issuers as needs might dictate. (The "sunset" deadline subsequently has been extended to December 31, 1991.)

North Carolina Educational Facilities Finance Agency — The North Carolina Educational Facilities Finance Agency (NCEFFA), created in 1986 by the General Assembly, provides the benefits of tax-exempt financing to nonprofit, private institutions of higher education in the State of North Carolina. This can mean considerable savings in interest costs for these institutions over the life of a bond issue. Most capital projects undertaken by a college or university can be financed through the Agency except for items that are customarily deemed to be current operating charges, facilities used as a place of religious worship, and facilities used by a department of divinity for any religious denomination.

Thus far, the Agency has provided approximately \$189.8 million for capital financing. During 1989-1990, the Agency issued \$2.49 million for a High Point College project, \$72 million for a Wake Forest University (Bowman Gray School of Medicine) project, and \$9 million for a Guilford College project. Thus, the Agency provided approximately \$83.5 million in tax-exempt assistance for the 1989-90 fiscal year.

North Carolina Clean Water Revolving Loan and Grant Funds — The North Carolina Clean Water Revolving Loan and Grant Fund was established by the 1987 General Assembly to provide low-interest loans to local governments constructing or improving upon water and sewer operations. Demand for the funds has far exceeded the amount appropriated. The intent is for this Fund to become self-perpetuating and for a permanent water and sewer loan fund to be made available.

The staff is responsible for reviewing the applicant's fiscal/debt management policies, determining the feasibility of the project, and coordinating the loan offers with the Department of Environment, Health, and Natural Resources. Maturity schedules are prepared for each loan, and the staff oversees the signing of the promissory notes.

In 1989-90, a total of seven units were selected to receive loans ranging from \$259,000 to over \$7 million. From our review, there was no evidence that these seven successful applicants would have been excluded from selling general obligation bonds in the marketplace.

Issuances of the North Carolina Pooled Industrial Revenue Bond Program — This State program is designed to make low-interest industrial revenue bond financing available to small and medium-sized manufacturing firms. In this program, several small financing packages are combined into one large composite issue, thus spreading the overhead costs among all borrowers. During fiscal year 1989-90, the establishment of a \$16,050,000 pool composed of seven different companies in seven different counties was achieved. Individual borrowings ranged from \$900,000 to \$7,650,000, which included a firm borrowing from the pool for a second time. To date, thirty counties have elected to join the North Carolina Industrial Facilities and Pollution Control Financing Authority, and more than \$23.5 million has been issued in support of 13 different projects.

Special Obligation Bonds — The Local Government Commission authorized the issuance of the first special obligation bond in North Carolina for the City of High Point pursuant to Chapter 159I of the General Statutes. Chapter 159I seeks to encourage and assist units of local government in providing solid waste collection and disposal through creating the North Carolina Solid Waste Management Capital Projects Financing Agency, creating the Solid Waste Management Loan Fund, and enabling financing of solid waste projects by units through the issuance of special obligation bonds and notes, without proceeding through the Agency.

Each unit of local government may agree to apply to the payment of a special obligation bond or note any available source or sources of revenues, except taxes, of the unit and, to the extent the generation of the revenues is within the power of the unit, to enter into covenants to take action in order to generate the revenues. The agreement to use such sources to make payments or such covenants to generate revenues does not constitute a pledge of the unit's taxing power.

High Point's \$6,200,000 project involved the construction, acquisition, and equipping of a recycling center and landfill improvements, including the construction of a leachate collection system, treatment systems, closure improvements, and acquisition and installation of liners. (The bonds subsequently were sold in August 1990 at fixed rates of interest ranging from 6.3% to 7.15%.)

Fiscal Management

Local Government Statistical Profiles Issued — In May of 1990, the staff completed the Fiscal Summary of North Carolina Counties and the Fiscal Summary of North Carolina Municipalities, which provide comparative financial information for county and municipal governments. The summaries are the result of a joint effort by the Department of State Treasurer, the Association of County Commissioners, and the League of Municipalities to present a collection of financial data for analysis by local government officials. These summaries are targeted primarily towards elected and appointed officials of local governments for use during the annual budget process. The use of graphs should enhance

the summaries' usefulness to board members, the general public, and the news media.

Each publication is organized into three sections to facilitate different levels of analysis. The first section presents a financial overview for the last three fiscal years, including statewide and population grouping statistics. The second section provides comparative financial information for individual local governments primarily through the use of graphs. It includes information about their revenues, expenditures, property taxes, and available fund balance. The last section lists certain 1988-89 revenue and expenditure items with comparative amounts for the previous two fiscal years.

All of the above information will assist in comparing current operations of a local government to its own past performance, to similar local governments, and to statewide averages. The comparison should identify inefficiencies, areas of excess expenditures, and untapped revenue sources. Our goal is for these publications to be updated on an annual basis.

The North Carolina Cash Management Trust — The balance of the Cash Fund in the North Carolina Cash Management Trust (NCCMT) grew approximately 21.1% from June 30, 1989 to June 30, 1990. At fiscal year end, the Cash Fund totaled \$1.09 billion, while the Term Portfolio had a year-end balance of \$83 million. There were 475 participants in the Cash Fund at June 30, 1990, as compared to 459 one year earlier. The number of participants in the Term Portfolio remained unchanged at 93. The NCCMT is one of the largest local government investment pools in the nation.

The amount of funds transferred over the Governmental Moneys Transfer System (GMTS) for the fiscal year ended June 30, 1990, was approximately \$1.48 billion, representing a 25.1% increase over the prior year. This system provides for an efficient transfer of funds between the State and local governments and ensures that moneys are constantly invested, resulting in no loss of interest earnings. These distributions consisted of sales and use taxes, utility franchise taxes, Powell Bill funds, intangibles taxes, and various other taxes and programmatic revenues.

North Carolina Cash Management Trust Surveys — The staff mailed surveys to units of local government for the purpose of evaluating the operations of the North Carolina Cash Management Trust (NCCMT). Two different surveys were prepared. One survey was sent to those units that participate in the NCCMT to ascertain the degree to which the Trust is meeting the needs of North Carolina's public investors. The other survey was sent to units that do not utilize the NCCMT to determine why they have chosen not to use the Trust as an investment. The surveys indicated that units of local government are pleased with the high quality of the Trust's operations and consider it a flexible investment alternative.

Requests for Proposals for Paying Agent and Registrar/Transfer Agent Services for State Debt — Two requests for proposals (RFPs) were issued in the summer of 1989 to financial institutions having the capacity to meet the paying and registrar/transfer agent services required by the State for the next five years.

Organizations responding to the RFPs submitted both technical proposals and cost proposals. The technical proposals were evaluated to determine which responders were qualified to provide the requested services. Each qualified bidder's cost proposal was then analyzed to determine which organization was the lowest responsible bidder. Based on the review of the RFPs, Chase Manhattan Bank was selected as the State's Registrar/Transfer Agent and Paying Agent. First Union National Bank was selected as the State's Co-Paying Agent. These institutions will perform their responsibilities through December 31, 1994.

Special Separation Allowance Survey/Joint Actuarial Study — A survey was conducted by the Division to evaluate the experience of local governments with the special separation allowance. The survey was distributed to counties and larger municipalities to assess the amount of benefits being paid and to determine how many units were having actuarial valuations of this benefit performed. Once the survey results were analyzed, it was determined that a joint actuarial study for a number of local governments would be cost beneficial. The joint valuation process was implemented by the North Carolina League of Municipalities and the North Carolina Association of County Commissioners after responses to a request for proposals had been analyzed. The staff of the Division provided support to these two organizations in the process of preparing the initial request for proposal. The joint study had 125 counties and municipalities participating. Some units that had previously paid for an individual actuarial study saved 75 percent through the joint study.

Illustrative Comprehensive Annual Financial Report (CAFR) — In cooperation with the Institute of Government at the University of North Carolina at Chapel Hill, the staff prepared an illustrative CAFR for a North Carolina county. The staff received input from CPAs and public officials across North Carolina and incorporated many of their recommendations into the final report. Also, the CAFR received an informal review from the Government Finance Officers Association for compliance with the requirements of its Certificate of Achievement for Excellence in Financial Reporting program. In the fall of 1990, the Institute of Government will publish the illustrative CAFR and utilize it as supporting material for educational programs.

Review of Semi-annual Reports of Cash Balance — The semi-annual Reports of Cash Balance for the six months ended June 30, 1989, and December 31, 1989, submitted by local governments and public authorities, have been examined by the staff of the Division. The reports are reviewed to determine strengths and weaknesses in the units' investment portfolios and to identify instances of noncompliance with the North Carolina General Statutes. Weaknesses are communicated in writing to the units along with suggestions for improvement.

RESPOND Electronic Bulletin Board System — The staff provided investment and financial data to local governments and CPAs through the RESPOND bulletin board system, which is managed by the Center for Urban Affairs and Community Services at North Carolina State University. The economic data included bond sales information, selected economic indicators and events, and interest rates. Financial data consisted of data from city and county annual financial information reports.

Analysis of Hospital Operations and Financing — Two statistical reports related to public hospital operations and financing by counties and municipalities were prepared. The first of these is a report on specific operating statistics for public hospitals for the past four fiscal years. This report includes information compiled from hospital audit reports on net working capital, total revenues and expenses, fund equity, quick ratio, and net income. The second report provides data on municipal and county funding of public hospitals during the past fiscal year. These summaries were developed to analyze public hospital operations and to assess these organizations' needs for additional funding.

In addition to these two reports, the staff has begun compiling a variety of other data on public hospital financial performance to evaluate their operations and continued financial soundness.

Focus Changes for Unit Visits — Historically, periodic on-site technical assistance has been provided by staff members of the Division to units of local government experiencing financial or budgeting problems. In an effort to prevent these problems, the Division has expanded its technical assistance to include management advisory as well as the traditional financial advisory services. A staff member with many years of experience as a town manager is assisting units in improving management techniques, and thus avoiding future financial problems.

Audit Manual for Governmental Auditors — This manual is issued to all CPAs performing governmental audits in North Carolina (approximately 240). It contains the following: references to authoritative sources and literature, sample internal control questionnaires and audit program guides, illustrative financial statements, sample independent auditor's reports and single audit reports, memoranda and publications, and compliance supplements written by State agencies for various federal and State grants. Every year this manual is updated to reflect Governmental Accounting Standards Board (GASB) pronouncements issued during the year and other newly available information. The State Single Audit legislation mandates the preparation of compliance supplements by State agencies, their review and approval by the State Auditor, and issuance by this Division. This information is distributed in the Audit Manual for Governmental Auditors.

Audit Review Process — The staff of the Division annually reviews the audit reports of approximately 1,050 units of local government. Each review consists of the

following: an analysis of proper presentation of the financial statements in accordance with generally accepted accounting principles; an analysis of proper reporting in accordance with Single Audit requirements, where applicable; and an evaluation of the financial condition of the unit and its compliance with The Local Government Budget and Fiscal Control Act. As a followup to reviews where problems are noted, local governments and public authorities, as well as their independent auditors, receive written communication expressing the staff's concerns, suggestions for improvements, and an offer of further assistance if needed. Also, memoranda are enclosed when appropriate as a means of providing additional assistance on topics such as collecting delinquent property taxes, consolidating the property tax billing and collecting functions, budgeting and related issues, and internal controls. A response detailing the unit's plans to take corrective action is requested. Approximately 435 of these letters were sent to units of local government during the 1989-90 fiscal year.

As a part of the audit review process, the Division's staff reviewed approximately 700 single audits. An extensive review is performed to ensure that audits performed under the Federal and State Single Audit Acts meet all the provisions of the law as well as federal and State requirements. This is necessary before auditors' invoices can be approved so that State departments and agencies can rely on the reports as a basis for compliance with applicable federal and State regulations. The staff expects to review approximately 720 single audit reports during the coming year. Because of the complexity of the single audit reports, a draft review process has been implemented to provide guidance to auditors before the final reports are issued. During 1989-90, 180 drafts were reviewed, an increase of approximately 80 percent over the prior year. Even more drafts should be submitted during 1990-91.

Memoranda — The preparation and distribution of memoranda to units of local government and their independent auditors is a significant service provided by the staff of the Division. Memoranda are of an informational, technical, or statistical nature. They are distributed periodically throughout the year to elected officials, finance officers, and local government independent auditors.

Several memoranda dealt with topics of current significance within the accounting and governmental communities. These topics included findings based on the staff's review of audits for the previous fiscal year, procedures regarding contracts to audit accounts and approval of invoices, qualifications and quality control standards for auditors performing audits under the Government Auditing Standards, current accounting issues, the statement of cash flows as it applies to governmental units, proper accounting procedures for National Forest Timber Receipts, GMTS distribution schedules, and updated lists of Option 2 financial institutions.

Other memoranda distributed by the staff throughout the year contain statistical data of use to the governmental units and their independent auditors. Examples include a report and analysis of cash and investments of governmental units as reported at June 30, 1989; reports on hospital operations and funding and county spending for public school capital outlay; statistical information on electric system operations; and statistical information on the ability of municipalities to finance future capital improvements of water and sewer systems. Governmental units may use these reports to compare their operations to those of other units of like size or geographic location, or to statewide averages. Independent auditors use this information to assist in the audit process.

Several other publications were issued during the year as well. The L.G.C. Bulletin, an annual publication that touches on a variety of topics, was issued in the spring. Beginning with the 1990-1991 fiscal year, the Bulletin will be issued semi-annually. Other publications issued during the year included a guide for local government tax collectors and a discussion of budgeting and related issues for small units of government.

Projects in Progress

Installment and Lease Purchase Financings — Procedures are in process to develop competitive offering statements for use in these financings. Since the 1989 Session of the General Assembly expanded the statutory authority in G.S. 160A-20, use of this statute has become commonplace. Competitive sales should result in lower interest rates on these financings.

Innovative Financings — The Division continues to receive many requests from units of local government in areas of non-traditional financing. Many of these financings have characteristics of "borrowing money;" therefore, each case has to be reviewed in light of statutory constraints that require voter approval. Guidelines and application forms have been drafted as a result of H. B. 960 enacted by the 1989 Session of the General Assembly. A desk reference on alternative methods of financing also is currently being finalized.

Capital Planning and Finance Conferences — The staff, in conjunction with the Institute of Government, Electricities of North Carolina, and the North Carolina League of Municipalities, planned three conferences to be held in the fall of 1990 on capital planning and finance, particularly addressing the implementation of long-term planning and the various financing alternatives available to local governments. With the pressing growth of infrastructure needs and related complex financing strategies, the process of capital planning becomes more difficult for local governments to manage. The staff hopes that these conferences will become an ongoing part of the Division's mission of working with local governments.

Policies Manual Update — The staff continued to work on the policies manual. Procedures from the Uniform Local Government Accounting Systems and Procedures Manual currently in use by municipalities and counties have been restructured to delete obsolete portions and to incorporate additional information including: 1) applicable legislative changes and new

legislation enacted since the currently used procedures were written, 2) information included in L.G.C. memoranda, publications, and technical memoranda, 3) accounting changes that have been mandated and/or suggested by authoritative bodies (e.g., GASB, FASB, GAO, etc.), and 4) other accounting related issues not included in the currently used procedures. New policies that were not in the procedures manual have been prepared for inclusion in the policies manual. Individual policies should be ready for distribution by late November.

Illustrative Financial Statements for Public Housing Authorities and Soil and Water Conservation Districts — The staff will publish illustrative financial statements for these governmental units in the next fiscal year. The financial statements for a public housing authority have received a limited review from various CPAs and officials of public housing authorities. The public housing authority will be accounted for as an enterprise fund in the financial statements. The financial statements for a soil and water conservation district operating as a public authority will be reviewed by representatives of the Department of Environment, Health, and Natural Resources and various CPAs before issuance. The financial statements will be prepared using the governmental fund types.

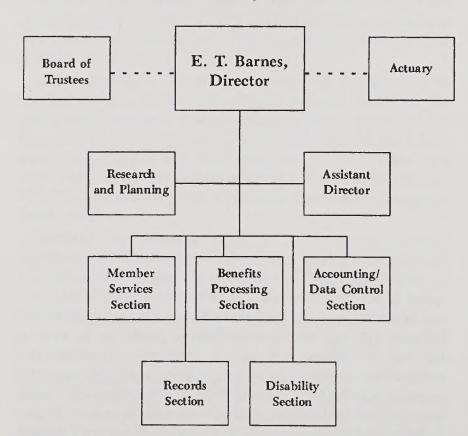
Review of Revenue Bonds — The staff is continuing to improve the Division's procedures for reviewing reports submitted by issuers of revenue bonds. The objective of this project is to develop a microcomputer program to identify when reports are due, indicate items to be checked for compliance with bond covenants, and ensure prompt follow-up of late reports. These improvements will permit faster identification of issuers who are not in compliance with bond covenants or are experiencing financial difficulties.

Audits of Soil and Water Conservation Districts — Based on a determination by the Attorney General's Office after discussions with this Division and the Department of Environment, Health, and Natural Resources, soil and water conservation districts were determined to be subject to the requirements for an annual audit specified in G.S. 159-34. A joint memorandum was sent from this Division and the Department of Environment, Health, and Natural Resources to inform the districts of these requirements. In order to be in compliance with the General Statutes, the districts must either have a separate audit as a public authority or be included in the scope of the audit of the county in which they are located. To be included in a county's audit, a district must be integrated into the county's budgetary process and accounting system. The districts (there are currently 96) and counties have been informed of the two alternatives through technical memoranda and presentations at regional meetings across the State. Most districts have chosen to be integrated into their county's budgeting and accounting system. Individual assistance has been provided to help facilitate this process.

Retirement Systems Division

The Retirement Systems Division of the Department of State Treasurer administers the statutory retirement and fringe benefit plans, as authorized by the General Assembly of North Carolina, which cover the State's public employees. The administration of the several retirement systems requires a high level of fiduciary responsibility for the employees' trust funds with prudent, honest and efficient use of employees' and tax-payers' contributions. The public purpose of the existence of retirement systems and benefit plans is to recruit and retain competent employees for a career in public service, and provide a replacement income for retirement, disability, or at death, for an employee's survivors. The organizational structure below shows the functional arrangement of the tasks performed in this Division.

Table of Organization



Operational Highlights

• Presented recommendations and draft legislation to the 1990 Session of the General Assembly which resulted in the enactment of laws to: (1) increase the defined benefit accrual rates in the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System; (2) provide post-retirement increases of 6.7% to most retirees; and, (3) provide for reciprocity of creditable service among the Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Consolidated Judicial Retirement System, and Legislative Retirement System.

- Initiated a competitive procurement process for a new comprehensive contract for third-party administration of the State's 401(k) Plan.
- Adopted the more easily understood Federal Simplified Safe Harbor Method of determining the nontaxable portion of a retirement benefit, effective January 1, 1990.
- Installed a new telephone system which provides the public with more efficient access to the staff of the Division.
- Instituted a procedure for processing retirement benefit checks in zip code order to provide for quicker delivery.
- Made the necessary operational modifications to allow for deduction of North Carolina State Income Tax from retirement benefit checks.
- Created a new computerized retiree payroll system for disability benefit recipients.
- Converted approximately 1,000 Disability Salary Continuation files to microfiche mode.
- Processed benefits for over 5,000 new retirees. Basic Functions

The retirement plans administered by this Division are the:

- Teachers' and State Employees' Retirement System
- Local Governmental Employees' Retirement System
- Consolidated Judicial Retirement System
- Legislative Retirement System

The Systems are governed by two Boards of Trustees. The State Treasurer is ex-officio Chairman of each board. The board of the Teachers' and State Employees' Retirement System is composed of 14 actively working

employees, retirees and public members. The Local Governmental Employees' Retirement System board, while legally separate, is composed of the same 14 members plus 3 members representing local governments. The Board of Trustees of the Teachers' and State Employees' Retirement System is the governing board of the Consolidated Judicial and Legislative Retirement Systems.

In addition to the retirement systems administered through this Division, responsibility for administration of other programs covers the:

- Public Employees' Social Security Agency
- Disability Income Plan
- Legislative Retirement Fund
- National Guard Pension Plan
- Teachers' and State Employees' Benefit Trust
- Supplemental Retirement Income Plan
- Registers of Deeds Supplemental Pension Fund
- Contributory Death Benefit for Retired Members

All retirement systems and other programs administered by this Division are operated on a calendar year basis from January 1 to December 31, rather than the State's fiscal year. For this reason, all data shown for the Division are for the captioned-year ending December 31, unless otherwise indicated.

The administrative expenses of the Division for the retirement systems are paid by receipts from the systems based on the ratio of members in each system to the total universe of members of all systems. Receipt support from other programs pays for their cost of administration based on a cost-center analysis.

General Administration

The Director and his immediate staff are responsible for the overall general operation of the Division, and carry out the policies and directives of the State Treasurer and the governing boards. They provide: assistance to legislators and committees of the General Assembly, including the drafting of proposed legislation and the acquisition of actuarial notes for each introduced bill; response to news media inquiries; action on administrative appeals by individual members of the retirement systems; a working relationship with associations and organizations of employees and employers; and information to State departments, agencies and institutions, and local governments. The staff provides assistance to local governments for Social Security coverage and acts as liaison between the State and the Social Security Administration. The staff also performs planning and research functions, and directs special projects.

Benefits Processing Section

This Section is charged with the responsibility for calculating and paying monthly retirement allowances to beneficiaries and refunds of accumulated contributions to terminated employees. In addition, the staff in this Section handles the calculations of the cost for retirement systems' members to purchase additional service

credits (e.g. military service, out-of-state service, and repayment of service forfeited on account of refunds of member contributions).

Accounting/Data Control Section

One major responsibility of this Section is receiving and processing payroll contribution reports from over 1,500 participating State and local units of government. Contribution information from these payroll reports is electronically posted to the individual accounts for about 383,000 members. Maintaining the accounting records for the Retirement Systems is also the responsibility of this Section.

A brief description of the other functions performed by this Section are as follows:

Retirees' Insurance — Receipt and processing of enrollment applications and coverage change requests for more than 67,000 retirees.

EFT Accounts/Address Changes — Receipt and processing of Electronic Funds Transfer account application and changes to EFT accounts. Over 45,000 retirees' benefits are processed through EFT. Also all address change requests for retirees are processed in this Section.

Batch Posting and Systems Transfers — Depositing and recording of special member contributions and transfer of funds between systems.

Error Checking — Correction of errors detected by computer edit in the processing of employers' payroll reports. Over 80,000 errors are detected and corrected in a typical year.

Member Services Section

This Section handles written and telephone communications with members and employers participating in the retirement systems, and other benefit programs, responding to myriad questions about fringe benefits. Accordingly, during the past year approximately 43,500 letters were written in this Section and approximately 265,000 telephone communications were handled. In addition, annual preretirement planning seminars are conducted by the staff of this Section, as well as retirement and fringe benefit conferences at the request of employers and employee associations. All visitors to the Division requiring individual counseling about their benefits are referred to this Section. More than 7,000 persons were interviewed during the past 12 months.

Another important function of this Section is coordinating the participation of local government employers electing to become members of the Local Governmental Employees' Retirement System. This involves meetings with local governing bodies, collecting data for transmission to the Actuary, enrollment of eligible employees and explanation of monthly reporting procedures. Ancillary to this function is assistance to local governments in the adoption of tax shelter and death benefit coverage agreements.

Records Section

This Section maintains custody of and updates all member and employer record files. An on-going function of this Section is the duplication of members' files into a microfiche system, and the conversion, as a long-term project, of members' and beneficiaries' files to the microfiche-based records system.

Disability Section

This Section is responsible for the administration and the determination of eligibility for disability benefits through the Systems' Medical Board under the Disability Income Plan for teachers and State employees, and the former provisions for disability retirement benefits under the Teachers' and State Employees' Retirement System, in addition to the determination of eligibility for disability benefits from the other retirement systems through the Systems' Medical Board.

Management of the various death benefit programs related to the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, and the Separate Insurance Benefits Fund is incumbent upon this Section. Responsibilities include the calculation and payment of death benefits, return of member contributions, survivor alternate benefits, Option 1 lump-sum pay-outs, and beneficiary changes for deceased retired members who selected an optional payment plan at retirement providing for a beneficiary after death.

This Section is also responsible for the administration of the Contributory Death Benefit Plan for Retired Members including the notification of eligibility under the Plan, enrollment of members electing coverage, collection of the required contributions, and payment of the death benefits.

Significant Accomplishments

Legislation

Prior to the convening of the 1990 Session of the General Assembly, the Director and staff identified all proposals for benefit enhancements and changes recommended by the various associations of educators, employees and retirees. Cost estimates for the recommendations were acquired from the Division's consulting actuary. The staff then assisted the State Treasurer and the Retirement Systems' Boards of Trustees in the formulation of their legislative recommendations.

During the 1990 Session, the Director and staff provided technical assistance and bill drafting services for the standing Senate and House Committees on Pensions and Retirement and communicated the Boards of Trustees' recommendations. The staff also acquired, as provided by State law, actuarial notes disclosing the fiscal impact of every bill introduced which affected a State-administered retirement system or pension plan.

Recommendations of benefit enhancements by the Boards of Trustees which were acted upon favorably by the General Assembly were to: (i) increase the defined benefit accrual rate from 1.63% to 1.64% in the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System; from 3.00% to 3.02%, 3.50% to 3.52%, and 4.00% to 4.02% in the Consolidated Judicial Retirement System;

and, from 4.00 % to 4.02 % in the Legislative Retirement System; and, (ii) provide a 6.1% increase in the retirement allowances of all beneficiaries of the several retirement systems, payable beginning July 1, 1990, for those in receipt of an allowance on July 1, 1989, and a prorated portion of the 6.1% increase for beneficiaries who retired after July 1, 1989; but prior to June 30, 1990; and, (iii) provide on account of the increase in the tormula accrual rate, an additional .6% increase, effective July 1, 1990, for beneficiaries who retired prior to July 1, 1990; and, (iv) provide for reciprocity of creditable service among the Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Consolidated Judicial Retirement System, and Legislative Retirement System for the purposes of determining eligibility for monthly retirement benefits in each system and restoring withdrawn accounts. The cost of these amendments was covered by reserves from the unencumbered actuarial gains of the retirement systems.

Communications

The staff of the Member Services Section is in the process of revising 19 forms for the use of members considering the purchase of various types of service credits as permitted by law. The forms provide both an application for members to inquire as to the cost of a particular service credit and detailed information about eligibility requirements and purchase procedures. The forms will be distributed to personnel and benefits officers of employers participating in the Teachers' and State Employees' and Local Governmental Employees' Retirement Systems upon completion. Also, the appropriate legislative changes are being updated in four new handbooks for general employees and law enforcement officers of both the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System.

Subsequent to adjournment of the General Assembly, a digest of all legislative changes was provided to all employing units and employee associations. In addition, Divisional staff contributed various articles which were published in the publications of the State Employees' Association, the North Carolina Association of Educators, and the Retired Governmental Employees' Association.

The staff of the Member Services Section worked with the staff of the State Agency for Public Telecommunications in revising video programs to complement the audio-visual (sound/slide) programs previously utilized for several years by the State and Local Retirement Systems. These programs, which can be used by anyone to explain the basic benefits structure of those Retirement Systems, are especially suited to the informational requirements of members nearing retirement age. Videos and sound/slide programs are used in the Division's statewide preretirement counseling meetings which are publicized throughout the State by the press, radio and television. In the spring of 1990, the Member Services staff conducted 38 of these meetings statewide with over 3,000 members in attendance. In addition to the

Division's sponsored meetings, the staff also participated in over 40 other meetings, seminars, benefits fairs and conferences relating to retirement benefits, excluding PREPARE workshops.

The Division continued its joint venture with the Office of State Personnel and the community college system in the PREPARE workshop program. This program covers legal, health, financial, housing and family aspects as they pertain to retirement. During the past year, 98 PREPARE workshops were conducted with more than 2,450 employees in attendance.

Functional

For the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System, the Division's Benefits Processing Section paid 19,240 refunds of contributions to members who had terminated covered employment and 5,477 new monthly retirement allowances.

Progress continued to be made in the on-going conversion activities in the Division. In the Records Section, the file folders of approximately 1,000 recipients under the Disability Salary Continuation Plan were converted to microfiche mode.

The Division continued a program to contact vested deferred members who were eligible for retirement benefits as a result of legislation which was enacted into law by the 1987 Session of the General Assembly which permitted the retirement systems to have access to the mailing addresses of members from other State departments and agencies. By obtaining access to the address computer records of the Department of Revenue, the division was able to notify members of their eligibility for retirement benefits.

In the Local Governmental Employees' Retirement System, 19 local governments elected to become participating employers with the System. The participation of these employers involved the staff of the Member Services Section in meeting with their governing bodies and employees, acquiring prevaluations from the consulting actuary as to an employer's contribution rate and providing all legal documents and agreements for their execution.

The Division utilizes several methods of obtaining information about the deaths of benefit recipients. With more than 86,750 monthly recipients, many opportunities for fraud exist, especially in cases where the check or deposit is remitted out-of-state. This year the Division contracted with a national firm that has a computer data base containing information about some 41 million deceased persons. That firm matched our benefit recipient computer tape with their death record tape. The results revealed that four retirees with monthly benefit payments totaling \$1,284.78 were deceased. Subsequent investigation verified the reported deaths and revealed that unauthorized persons were appropriating the proceeds from these benefit payments. Immediately upon verification of the reported deaths, the monthly payments were terminated and action

begun to recover some \$17,660 paid out since the deaths of those four retired members.

Information was also obtained regarding the deaths of members with accounts reflecting no activity during the previous calendar year. The results revealed 2,568 members who were eligible for payments but were deceased. The Member Services Section is currently investigating the reported deaths and locating beneficiaries to whom benefits may be payable.

Additionally, we communicated with approximately 1,900 members who have terminated employment and have attained 70½ years of age. They were notified of their eligibility for either a lump-sum refund or a monthly benefit. Benefits have been paid, or accounts otherwise settled in over 1,100 cases.

Several advancements in computer capabilities allowed for the creation of a new payroll system for benefit recipients, who are receiving benefits as a result of qualifying under the former Disability Salary Continuation Plan. The new system offers divisional personnel direct on-line computer access to accounts thereby allowing for more efficient response to member inquiries. Moreover, the new payroll system provides these members with direct deposit of benefit payments and withholding of State income taxes. Also, new computer software that updates a member's account, when an application is filed for disability benefits under the Disability Income Plan of North Carolina, was developed.

Redesigned disability earnings statements, for benefit recipients of the Disability Income Plan of North Carolina, provided more accurate earnings information for the determination of continued eligibility for disability benefit payments.

In the area of accounting, a new disbursing account was created to allow divisional staff to write checks inhouse, instead of having to request warrants through the State Controller's Office. This gives quicker service to those members who require retirement or refund checks to be issued prior to the next computer check-run date.

The Retirement Systems and Trust Funds Actuarial Valuation

The actuarial valuation is prepared by an actuary to assess the funding progress of a retirement system and the adequacy of the contribution rates which have been established to fund the system. An actuarial valuation is an inventory of the assets and liabilities of a retirement system at a specific point in time. Information collected covers all of the active (both in-service and terminated) members and all of the retired members and other beneficiaries who are receiving benefit payments. In this way, everyone who has been promised a benefit from the system is included in the actuarial calculations to determine the present value of the system's liabilities. These liabilities are then compared to the system's assets, and calculations are made to determine whether the contribution rates will be adequate to fund the uncovered liabilities in the time period originally established.

Annual valuations are made to permit gradual changes in the contribution level and/or funding period and keep the funding on a proper course. The annual valuation is also used by the actuary to compare actual separation, compensation and investment experience with the actuarial assumptions used in the valuation of the liabilities of the system. The actuarial valuation balance sheets for each retirement system are included with the tables.

Actuarial Assumptions

The economic assumptions used for the actuarial valuation of all retirement systems are an interest rate of $7\frac{1}{2}$ % per year and average rates of salary increase of $6\frac{1}{2}$ % per year, varying at different ages. The assumed rates for mortality, withdrawals, disabilities and service retirement are based on actual past experience. The asset valuation method is based on cost value.

Funding of the System

The retirement systems described in this report, except the Legislative Retirement System, are being funded on a full actuarial reserve basis and use the entry age normal cost method as the actuarial cost approach. Under the entry age normal cost method, the normal contribution percentage rate is calculated on the basis of the adopted actuarial assumptions as the level percentage of the compensation of the average new member which, if contributed throughout the entire period of active service, would be sufficient, together with his contributions, to support all the benefits payable on his account. The accrued liability is the difference between total liabilities and the present value of future normal cost contribution and the members' future contributions. All experience gains and losses are reflected in the amount of the unfunded accrued liability and thereby affect the period of liquidation, except the Local

Governmental Employees' Retirement System where they are reflected in the normal contribution rate. The Legislative Retirement System is also being funded on a full actuarial reserve basis, but uses the projected unit credit cost method with unfunded accrued liability as the actuarial cost approach.

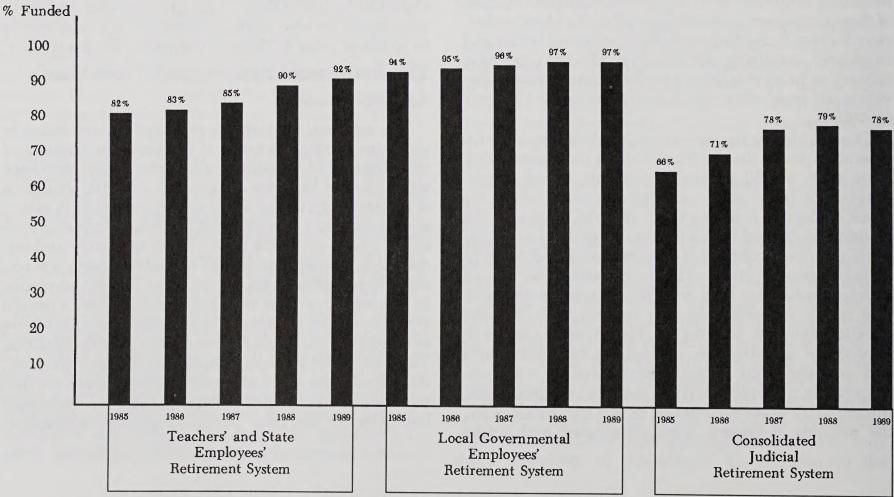
All retirement systems are joint contributory defined benefit plans with contributions made by both employees and employers. Each active member contributes six percent (6%) of his compensation for creditable service by monthly payroll deduction. The only exception to this member contribution rate is the Legislative Retirement System to which each active member contributes seven percent (7%) of his compensation. Employers make monthly contributions based on a percentage rate of the members' compensation for the month. Employer contribution rates are actuarially calculated.

Funded Status of the Retirement Systems

The consistent use of conservative actuarial assumptions and an approved actuarial cost method over the years since the establishment of the retirement systems, and the recognition of all promised benefits in the actuarial liabilities, have resulted in retirement systems which can be labeled as "actuarially sound." A simple measure for determining the funded status of a System is to relate the total present assets to total accrued liabilities to determine a funded ratio. The total accrued liabilities are found by adding the assets and the unfunded accrued liabilities. For purposes of comparison, the funded ratios for the major retirement systems are graphically illustrated in Chart 19. When the ratio equals 100 %, a system is considered to be "fully funded" on a current basis. At that time, the employer will make only the normal (current service) contributions.

Chart 19

FUNDED RATIO OF THE RETIREMENT SYSTEMS



Teachers' and State Employees' Retirement System of North Carolina (State System) N.C.G.S. 135-1 Through 135-18.5

The State System has the largest assets and membership of the retirement systems administered by the Division. The System provides benefits to all full-time teachers and State employees in all public school systems, universities, departments, institutions, and agencies of the State. The General Assembly created the Teachers' and State Employees' Retirement System effective July 1, 1941.

This System began operations with a membership of 42,878 teachers and State employees, and with appropriations from the State of \$1,838,000. The membership of the State System has grown over the years in proportion to the growth in size and complexity of the public schools and the State government. The active membership of the State System at December 31, 1989, was 273,126 and in addition there were 66,319 retired members and beneficiaries of deceased retired members, and invested assets of about \$12.7 billion.

The distribution of the investments of the assets of the State System as of December 31, 1989, was:

Distribution of Investments December 31, 1989

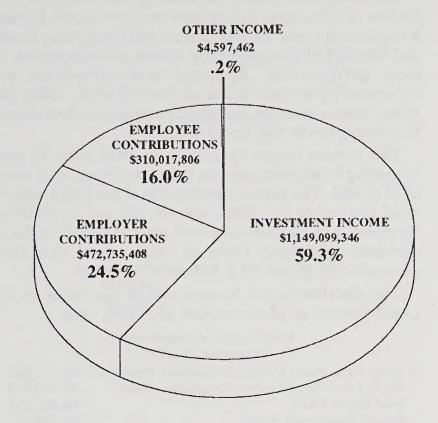
Long-Term Fixed Income Investment Fund	\$ 9,093,088,201
Short-Term Fixed Income Investment Fund	71,680,570
Real Estate Investment Fund	165,473,854
Equity Investment Fund	3,373,152,321
Total	\$12,703,394,946

Operations of the State System during the calendar year 1989 resulted in total receipts of \$1,936,450,022 and total expenditures of \$561,492,216. Chart 20 graphically presents the distribution of revenues by source and expenditures by purpose.

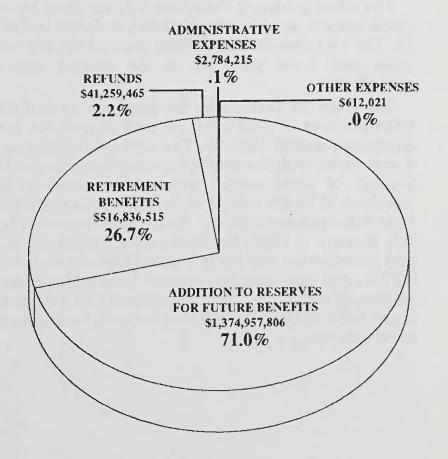
The latest Actuary's Valuation Balance Sheet for the State System as of January 1, 1990, is shown in Table 10. Based on the previous and latest actuary's reports, the Board of Trustees set the employer contribution rate at 9.35% of covered members' payroll. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized, based on current service, and to fund, over a period of 12 years from January 1, 1990, the remaining accrued liability for past service.

Teachers' and State Employees' Retirement System of North Carolina Year Ended December 31, 1989

Sources of Funds



Applications of Funds



North Carolina Local Governmental Employees' Retirement System (Local System)
N.C.G.S. 128-21 through 38

The Local System is maintained for the employees of cities, towns, counties, boards, commissions, and other entities of local government in North Carolina.

Because participation of local governments in this System is voluntary, the operation of the Local System is dependent upon the acceptance and continuing financial support of the governing bodies and employees of local governments. Approval and acceptance are evidenced by the fact that as of December 31, 1989, 726 cities, towns, counties, and local commissions had chosen to participate in the Local System.

This system began operations in 1945 with 18 participating local governments, 2,102 members, and assets of \$178,053. The active membership of the Local System as of December 31, 1989, was 94,310 and in addition there were 16,313 retired members and beneficiaries of deceased members. Invested assets as of this date amounted to about \$2.8 billion.

The distribution of investments of the assets of the Local System as of December 31, 1989, was:

Distribution of Investments December 31, 1989

Long-Term Fixed Income Investment Fund	\$2,002,111,649
Short-Term Fixed Income Investment Fund	27,753,843
Real Estate Fund	36,451,442
Equity Investment Fund	765,355,071
	\$2,831,672,005

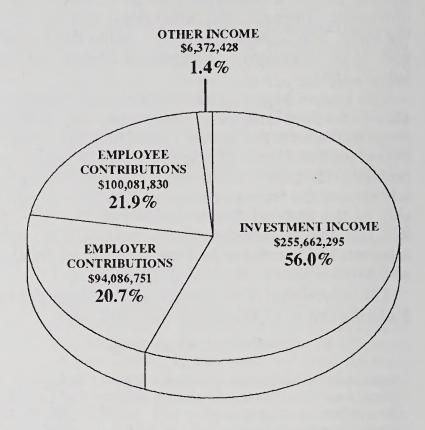
Operations of the Local System during the year 1989 resulted in total receipts of \$456,203,304 and total expenditures of \$122,554,622. Chart 21 graphically presents the distribution of revenues by source and expenditures by purpose.

The latest Actuary's Valuation Balance Sheet for the Local System, as of January 1, 1990, is shown in Table 11. The valuation utilizes a frozen accrued liability with gains and losses reflected in the normal rate of contribution.

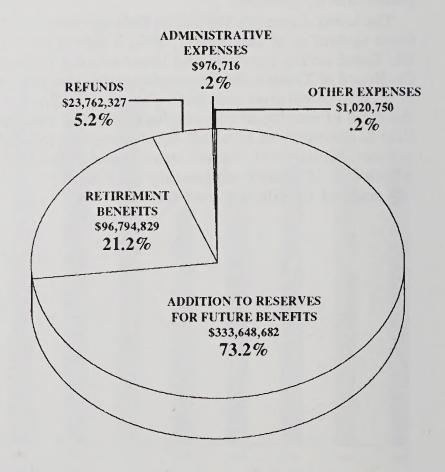
The Board of Trustees set the employer normal contribution rate of 4.63% of covered payroll for each employing unit in 1989-90. The accrued liability rate, if any, varies with the employing units depending on the amount of prior service which is awarded to the members. With the merger of the Local System with the Law Enforcement Officers' Retirement System, effective January 1, 1986, the Board set the employer normal contribution rate for law enforcement members at 5.10%, and combined the accrued liability for general employees and law enforcement officers into a single accrued liability contribution rate for each local government affected.

North Carolina Local Governmental Employees' Retirement System Year Ended December 31, 1989

Sources of Funds



Applications of Funds



Consolidated Judicial Retirement System of North Carolina (Judicial System) N.C.G.S. 135-50 through 135-72

The Judicial System was created by the 1983 Session (Regular Session, 1984) of the General Assembly effective January 1, 1985. This System was formed by combining the previously existing Uniform Judicial, Uniform Solicitorial, and Uniform Clerks of Superior Court Retirement Systems. The Courts Commission was responsible for the design of the benefit structure of the previous systems, which was carried forward to the new consolidated system.

The membership of the Judicial System is composed of the elected judges and justices, solicitors and district attorneys, and clerks of superior court of the General Court of Justice. As of December 31, 1989, there were 430 active members and 258 retired members and beneficiaries of deceased retired members. The invested assets at that time were about \$90 million.

The distribution of the investments of the combined Judicial System as of December 31, 1989, was:

Distribution of Assets December 31, 1989

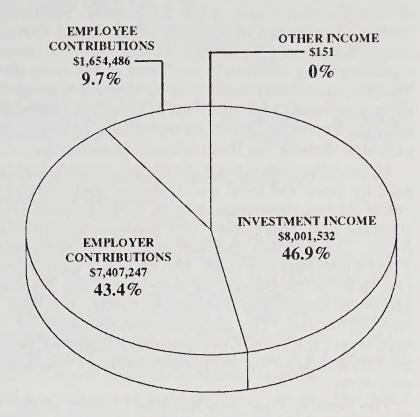
Long-Term Fixed Income Investment Fund	\$62,625,595
Short-Term Fixed Income Investment Fund	
Real Estate Investment Fund	1,130,771
Equity Investment Fund	24,112,200
Total	\$89,582,318

Operations of the Judicial System during the calendar year 1989 resulted in total receipts of \$17,063,416 and total expenditures of \$5,895,543. Chart 22 graphically presents the distribution of revenues by source and expenditures by purpose.

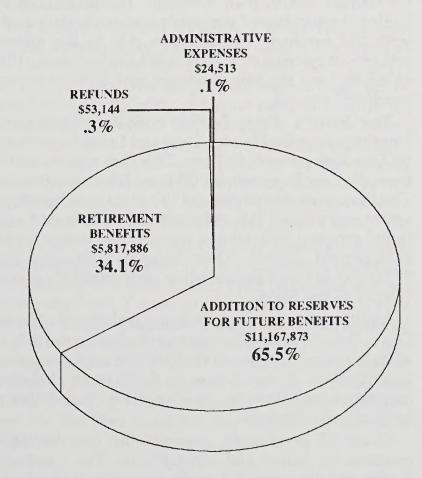
The latest Actuary's Valuation Balance Sheet for the Judicial System as of January 1, 1990, is shown in Table 12. Based on the actuary's report, the Board of Trustees set the employer contribution rate at 29.71% of covered members' payroll effective January 1, 1990. On this basis, the total of member and employer rates of contribution is adequate to fund all future benefits presently authorized based on current service and to fund, over a period of 15 years from January 1, 1990, the remaining accrued liability for past service.

Consolidated Judicial Retirement System of North Carolina Year Ended December 31, 1989

Sources of Funds



Applications of Funds



Teachers' and State Employees' Benefit Trust (Benefit Trust)
N.C.G.S. 135-5(1); 128-27(1); 143-166.02; and

143-166.60

The Benefit Trust was established January 1, 1980, after enabling legislation was enacted in the 1979 Session of the General Assembly, by the Board of Trustees of the Teachers' and State Employees' Retirement System. The Board of Trustees of the Local Governmental Employees' Retirement System elected to become a participating affiliate in the Trust at the same date. The purpose of the Benefit Trust is to provide group life insurance benefits for members of these two retirement systems. Formerly, identical type death benefits were provided directly by these retirement systems.

All contributions to fund the life insurance benefit are paid by State and local governments, participating in one of the two retirement systems, to the Trust and held separate and apart from any pension or retirement funds. The funding method adopted for the Benefit Trust is one-year term cost. The employer contribution rate to fund this benefit for members of the Teachers' and State Employees' Retirement System is 0.22% of covered payroll. The employer contribution rate for members of the Local Governmental Employees' Retirement System is actuarially determined and varies among employers.

The Benefit Trust also includes funding of the individual coverage cost for retirees who retired with the Teachers' and State Employees', Consolidated Judicial, and Legislative Retirement Systems under either the State's health plan or approved Health Maintenance Organizations. This function is simply the conduit of moneys flowing from employers into the Trust to pay for retirees' health plan coverage. The method of collecting the employers' payments is a surcharge payable with the employer contribution rate to the affected retirement systems of 1.10% until September 1, 1989, at which time the rate increased to 1.55% of covered members' payroll.

The Benefit Trust further includes the Separate Insurance Benefits Plan for State and Local Governmental Law Enforcement Officers. This Plan was transferred from the Law Enforcement Officers' Retirement System. The Plan provides additional life insurance benefits to active and retired law enforcement officers and additional accident and sickness insurance coverage for law enforcement officers. These benefits are funded by a \$1.00 cost-of-court assessment in each criminal case conviction in the State.

Additionally, the Benefit Trust includes the Retiree Death Benefit Plan. This plan is funded by participant contributions. The benefit is \$5,000 after 24 months of contributions. If a participant's death occurs before 24 months of contributions, the benefit is limited to a refund of contributions.

Chart 23 graphically presents the distribution of revenues by source and expenditures. The number of deaths and amounts of benefit payments, according to member group, during 1989 were:

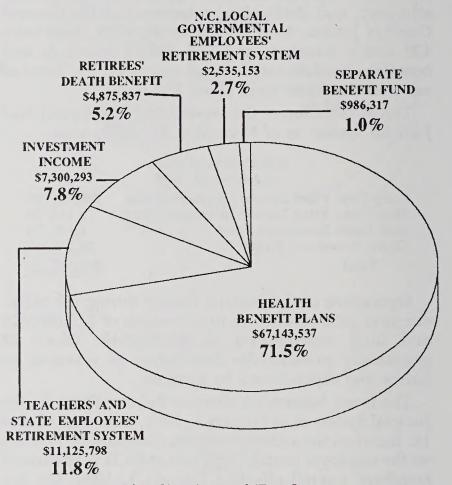
Life Insurance Payments Calendar Year 1989

Retirement System Membership	Number of Payments	Amount
Teachers' and State Employees'	457	\$10,282,872
Local Governmental Employees'	153	2,144,262

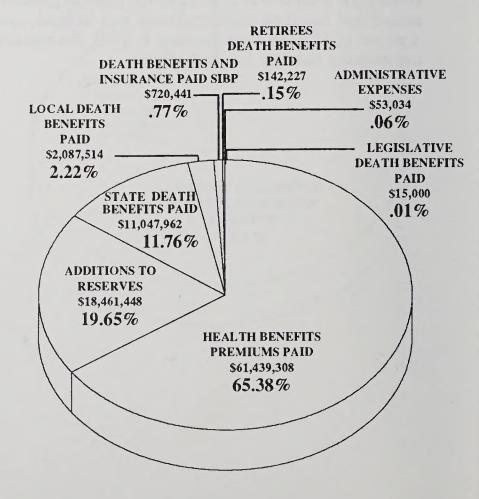
Chart 23

North Carolina Teachers' and State Employees'
Benefit Trust
Year Ended December 31, 1989

Sources of Funds



Applications of Funds



Legislative Retirement Fund (Fund) N.C.G.S. 120-4.1 through 120-4.2

The Fund was created by the 1969 Session of the General Assembly as a retirement plan for members and elected officers of the North Carolina General Assembly. The Fund was abolished, prospectively, by the 1973 Session (Second Session 1974). The abolishing Act preserved the vested and inchoate rights of the members in the Fund so that all members and former members of the General Assembly who had qualified by virtue of service as of 1974 are still in receipt of monthly allowances or may apply for and receive monthly allowances at age 65. There were 52 former members and officers of the General Assembly in receipt of allowances with a cost in the year ended December 31, 1989, of some \$85,675. The cost is funded by a contribution of 5% of compensation paid by members at retirement and an annual general fund appropriation made to the General Assembly. The Fund is not operated as a retirement fund, but as an expendable trust fund.

Legislative Retirement System (System) N.C.G.S. 120-4.8 through 120-4.29

The Legislative Retirement System was created by the 1983 Session of the General Assembly as a retirement plan for members of the General Assembly. The membership also included members who were vested or had maintained member contributions in the Legislative Retirement Fund and those retirees receiving a benefit from the Legislative Fund and who elect to transfer to the Legislative Retirement System.

As of December 31, 1989, the System had 164 active members, 47 inactive members and 84 retired members. Assets on that date totalled \$4,975,983. Operations of the System during calendar year 1989 resulted in total receipts of \$1,602,388 and disbursements of \$299,483 with \$1,302,905 added to the reserve for future benefits.

Based on the latest and previous actuarial reports, the employer contribution rate was set at 35.76% of covered payroll for the period January 1, 1989, to August 31, 1989, and 37.20% for the period September 1, 1989, to June 30, 1990. On this basis, the total of employee and employer rates of contribution is adequate to fund all future benefits presently authorized, and to fund, over a period of five years from January 1, 1989, the remaining accrued liability for past service.

Disability Salary Continuation Plan (DSC Plan) N.C.G.S. 135-34 Disability Income Plan N.C.G.S. 135-100 through 135-113

The provisions governing the Disability Salary Continuation Plan were repealed effective January 1, 1988, and replaced by the provisions governing the newly created Disability Income Plan. All benefit recipients of the former Disability Salary Continuation Plan became beneficiaries of the new Disability Income Plan under the same provisions, conditions, and benefit amounts as previously payable. Both Plans are self-insured and are administered by the Division. The employer contribution rate to fund this benefit is 0.52% of the covered

payroll of members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program.

The following are certain statistics relating to the number of disabled members, number of new claims, the claims closed during the year, investment earnings, and amount of benefit payments during the calendar years ended 1989 and 1988:

Selected Statistics For the Calendar Years

	1988	<u>1989</u>
Number of Disabled Members	1,511	1,748
New Claims During the Year	8	549
Employer Contributions	\$25,348,129	\$27,550,656
Investment Income	1,088,911	3,481,867
Amount of Benefit Payments	2,470,708	6,251,533

Public Employees' Social Security Agency (Social Security Agency) N.C.G.S. 135-19 through 135-26

The Social Security Agency administers the State's responsibility under the Social Security Agreement between the State of North Carolina and the United States Secretary of Health and Human Services. This Agreement was entered into on July 16, 1951. This Agreement was executed pursuant to authority in Section 218 of the Federal Social Security Act and Article 2, Chapter 135, of the General Statutes of North Carolina.

The provisions of the Agreement require the Social Security Agency to provide the mechanics of coverage for the State and its qualified political subdivisions and to act as liaison between the State and the Social Security Administration.

National Guard Pension Plan (Guard Plan) N.C.G.S. 127A-40

The Guard Plan was transferred to the Department of State Treasurer for payment of monthly benefits by the 1979 Session of the General Assembly, effective July 1, 1979. This Division pays allowances based on the certification of eligibility of former national guardsmen by the Secretary of the Department of Crime Control and Public Safety. The payments of benefits are funded by State General Fund appropriations by the General Assembly. As of December 31, 1989, there were 877 beneficiaries in receipt of monthly allowances from the Guard Plan at a cost that calendar year of \$857,368.

The 1983 Session of the General Assembly enacted legislation, effective July 1, 1983, creating a trust fund for financing National Guard Plan payments and requiring the State Treasurer to maintain the Plan on a generally accepted actuarial basis. Based on an actuarial study after passage of this legislation, the June 1984 Session appropriated \$1,717,977 to begin actuarial reserve funding. The funding appropriated for 1989-90 was \$2,209,431. The latest Actuary's Valuation Balance Sheet for the Plan as of January 1, 1990, is shown in Table 13.

Supplemental Retirement Income Plan of North Carolina [401(k) Plan] N.C.G.S. 135-90 through 135-95; 143-166.30; and 143-166.50

The 1983 Session (Regular Session, 1984) enacted enabling-type legislation creating the State's Internal Revenue Code Section 401(k) Plan effective as of January 1, 1985. The Plan is a voluntary tax-deferred savings/investment program designed to supplement members' replacement income in retirement. The Plan is governed jointly by the State Treasurer and a Board of Trustees composed of members of the Boards of Trustees of the Teachers' and State Employees' and Local Governmental Employees' Retirement Systems.

After a thorough competitive bidding process, the Board renewed its contract for an additional six years with Branch Banking and Trust Company (BB&T), the Plan's third-party administrator. BB&T is responsible, under the Plan document adopted by the Board and the terms of the contract with the Board, for all aspects of operating the Plan. This responsibility includes communications, recordkeeping, and investment products.

The Plan's number of participating members increased from 48,541 as of July 1, 1989, to 58,805 members as of June 30, 1990, for an increase of about 21%. Contributions by employers during this fiscal year totaled over \$28,328,258 while salary deferred contributions by members were over \$27,733,079. The total assets at book value of the Plan increased by 37% to \$249,686,362.

Under the new contract, the Plan has expanded the number of investment options available for members from four to six. Members may select from a Bank Investment Contract, a Money Market Account, and four mutual funds. As of June 30, 1990, 42% of the assets were invested in the Bank Investment Contract, 36.6% were invested in the mutual funds, and 16.6% were invested in the Money Market Account. In addition, 4.5% of the assets were loans receivable and 0.3% of the assets were cash on deposit. Significantly, 80% of the participants will pay smaller investment fees under the new contract.

A portion of court cost receipts are deposited into the account of each State and local government law enforcement officer. As of June 30, 1990, court cost receipts of \$1,724,046 were transferred and credited to the State and local law enforcement officers' accounts. In addition, \$381,519 was transferred from the Sheriff's Supplemental Pension Fund and credited to local officers' accounts.

Registers of Deeds Supplemental Pension Fund N.C.G.S. 161-50 through 161-50.5

The Registers of Deeds Supplemental Pension Fund was created by the 1987 Session of the General Assembly for the purpose of providing a supplement to Local Governmental Employees' Retirement System benefits for Registers of Deeds. The stated purpose of the Act was to attract the most highly qualified talent available within the State to that county office. The Supplemental

Pension Fund is administered by the Department of State Treasurer.

Each County Commission began October 1987 remitting monthly to the Department of State Treasurer an amount equal to 4.5% of the monthly receipts collected pursuant to Article 1 of Chapter 161 of the General Statutes for deposit to the credit of the Register of Deeds Supplemental Pension Fund. As of December 31, 1989, the Fund had total assets in the amount of \$1,373,448.

Benefits from the Fund became payable beginning July 1, 1988. For the year ending December 31, 1989, the Fund paid total benefits in the amount of \$244,526 to 46 retired Registers of Deeds.

Contributory Death Benefit for Retired Members N.C.G.S. 120-4.27, 128-27 (12), 135-5(1), and 135-64(g)

The Contributory Death Benefit for Retired Members was created by the 1987 Session of the General Assembly as a fully contributory death benefit plan for retired members of the Teachers' and State Employees' Retirement System, the Legislative Retirement System, the Consolidated Judicial Retirement System, and the Local Governmental Employees' Retirement System, effective July 1, 1988. The Contributory Death Benefit is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System. The contributions of retired members electing coverage are placed in the Contributory Death Benefit Trust.

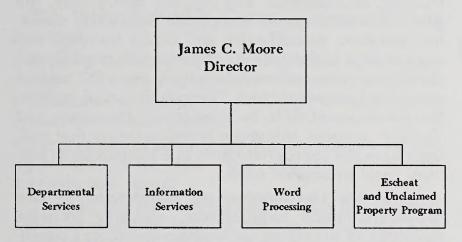
Selected Statistics For the Calendar Year

	1989
Enrollment	17,538
Contributions	\$4,875,837
Investment Income	422,358
Payouts (Death/Cancellations)	142,227

Administrative Services Division

The Administrative Services Division is organized to provide support services to the State Treasurer and the program divisions within the Department, and to administer the State's Escheat and Unclaimed Property Program.

Table of Organization



Operational Highlights

- \$5,127,372 in net investment earnings from the Escheat Fund was remitted to the State Education Assistance Authority to provide loans to North Carolina students in State-supported schools of higher education.
- \$10,770,439 in escheat and unclaimed property was received from 2,335 holders.
- \$1,494,033 was refunded to 3,882 individual owners of escheated and unclaimed property.
- Unclaimed stocks and mutual funds valued at \$1,200,000 were received.
- A custodian agreement was entered into with an instate financial institution to handle unclaimed securities and mutual funds.
- Contracts were entered into with two organizations who perform unclaimed property audits on large corporations in the securities and mutual fund industry.
- Personal computer applications have been enhanced to allow interfacing with the mainframe computer.
- A personal computer support group has been established to aid with applications development skills, in-house training and "hotline" support to ensure that end-users have the appropriate tools and knowledge to perform their automated tasks.

Departmental Services

Departmental Services provides general support to the Department in areas of personnel management, budget operations, and mail and supply room/purchasing functions. In addition, technical assistance is also provided for special projects such as cost-benefit studies, management audits, and preparation of supplementary technical reports and studies.

Personnel Management — On June 30, 1990, the Department of State Treasurer had 238 positions. During the past year, 29 employees were promoted and 21 new employees were hired.

The Department has continued to participate in the Model Cooperative Education Program. The MCEP has increased the pool of qualified protected group job applicants in professional areas, i.e., black accountants, female auditors, etc. The last participant in the MCEP has graduated and been hired as a full-time auditor in the Escheat and Unclaimed Property Program.

One employee has recently completed the Fundamentals of Management training for middle managers. This is a preliminary course offered to prospective participants in the Public Managers Program sponsored by the Office of State Personnel.

Budget Operations — This area is responsible for ensuring that the Department operates within its allotted budget from which all departmental expenses must be paid. Total operating expenditures for the 1989-90 fiscal year were \$10,898,892. Of this amount, \$7,311,655 or 67% was receipt supported and required no general fund appropriations.

Technical Assistance — The Investment Accounting (IAS) System is functioning as designed. The system has significantly reduced the time spent in this area. The two major activities on IAS were:

- 1. How the Governmental National Mortgage Association mortgage-backed bonds are treated in the market place, in the IAS system itself, and the interaction between the two especially with regard to exchanges.
- 2. How to use the IAS system to account for the collateral held to insure deposits particularly with respect to securities having multiple custodians.

Research was performed for the State Treasurer on general fund revenues for the current year and on estimates to be used to answer questions from the General Assembly on the current year's departmental budget.

Assistance was provided to Escheat Fund Administration in implementing the use of IAS and a corporate custodian for the escheated marketable securities.

The unit participated in the State Controller's Focus Group on Financial Reporting. The group addresses the needs of the departments who will use the new statewide accounting system and the new chart of accounts being developed.

With the assistance of staff members of the State and Local Governmental Finance Division, the unit prepared comments for the Governmental Accounting Standards Board (GASB) on the following exposure drafts:

- 1. Measurement Focus and Basis of Accounting Governmental Fund Operating Statements (Revised).
- 2. Disclosure of Information on Postemployment Benefits Other Than Pensions by State and Local Governmental Employers.
- 3. Accounting for Pensions by State and Local Government Employers.

Background information was provided to the staff of GASB on specific applications relative to questions raised by the Board.

Rules were submitted for notice for the State Treasurer, The Local Government Commission, and the Solid Waste Management Capital Finance Agency.

Information Systems

The Information Systems (IS) Section provides automated computer services to each Division within the Department. The Section utilizes both mainframe and personal computer hardware to provide services in the areas of application development and maintenance, computer operations, data coordination, central data entry, system software support, training, and librarian functions.

Mainframe Resources — In a continuing effort to maximize mainframe productivity and restrain hardware growth, several new procedures have been established. For example, selected production jobs that formerly were executed during prime-time have been rescheduled for second shift operation. Concurrently, staff has been reassigned to second shift to support increased operations' responsibilities. This process frees prime-time processing capability and enhances the ability to develop and enhance on-line systems.

Concerning on-line systems, communications hardware capability has been expanded. New communications controllers have been installed and an increasing number of display terminals and personal computers now communicate directly with the mainframe. Also, recently completed conversion of data entry resources utilizes mainframe capability to provide dynamic balancing support for our payroll applications. All system software has been, or will soon be, upgraded to the most current levels in preparation for the installation of a new operating system. This task will be followed immediately with attachment of our mainframe to the State Communications Network maintained by State Information Processing Services (SIPS). This process will allow automated exchange of information with selected State Government agencies.

Finally, we have requested and received approval for the installation of a fire prevention system for our mainframe computer areas. This system is presently being installed.

Personal Computer Resources — Personal computers (PCs) are playing an increasing role in the business affairs of the Department. Recently, office compatible PCs have been installed for the Word Processing Section, Data Entry Unit, and for selected applications in each of the Divisions. The machines operate in a stand-alone mode, in a Local Area Network (LAN), and in direct communication with the mainframe. To ensure proper productivity, internal procedures have been established concerning the acquisition of PC hardware, software, training, maintenance, and support. Specifically, the goal has been to ensure compatible hardware, consistent software, cost-effective and timely training, and support. Due to the quantity of personnel using PCs and the critical nature of several applications, a PC support group has been established. Through the use of application development skills, in-house training seminars, and "hotline" support, this group serves to ensure that endusers have the appropriate tools and knowledge to perform their automated tasks.

Application Development and Maintenance — Due to programmatic requirements, on-going software maintenance to existing applications consumes a significant portion of IS development resources. For example, software modifications were made to address changes in Retirement formulas, cost-of-living adjustments, and hospitalization insurance deductions. Full-cost tables were modified for service credit purchases, and an older Disability Salary Continuation (DSC) system was consolidated with a new Disability Income Plan of North Carolina (DIPNC). New innovations in the processing of active Retirement contributions has reduced errors and exceptions by more than 50%. New Retirement check forms and tax preference forms have been developed, and major software changes have been made to accommodate the new State withholding tax requirement. Also, Retirement checks are now printed in zip code order to minimize postal charges and to further ensure timely delivery of the checks.

On-going support is required for the comprehensive IAS, the on-line Escheat owner/holder system, and the State and Local Government bond issue applications. The continuing emphasis on receiving Retirement contributions on magnetic media is having a positive effect in the quantity of records that must be keyed by our data entry staff.

Concurrent with software maintenance and enhancement functions, new applications are under development. A leave reporting system and a comprehensive personnel profile system will soon be operational. Procedures necessary to provide hospital insurance deductions for retired members of the Local Governmental Employees Retirement System are under development. A logging system for disability claims has been installed, and comprehensive on-line history information is now readily available to assist in Retirement benefit calculations. The development of a major Retirement application has begun that links most Retirement systems into one cohesive package. That is, the receipting (contribution) phase of Retirement systems will link with the disbursement (refund, retirement, disability) phases through the development of a "transition" system. This system will provide detail status, tracking, and control information on each disbursement application during the transition period. As a second phase to this project, a Retirement benefit calculation processing module will be developed to provide "what if" response to various Retirement benefit options.

Word Processing

The Word Processing Center was established to provide:

- Support in the preparation of statistical reports, procedures, manuals, graphs, and written communications.
- Technical assistance in the design of new forms, revised forms, and graphics.
- Preparation of final copy for printing of official statements, bond and note circulars, brochures, manuals, and forms.

The past year has shown a slight decline in documents and lines produced in the word processing area. This seems to be due to the shift of work back to the Divisions. The typesetting area continues to be used heavily. We are receiving an increased volume of requests to design covers, brochures, etc. Because of these requests, the graphics area is continuing to expand.

We are currently investigating additional equipment and software to increase our services to the users.

Escheat and Unclaimed Property Section

The Escheat and Unclaimed Property Program continues to be one of the most progressive trust accounts administered by the Department of State Treasurer. It is charged with the responsibilities of:

- Receiving unclaimed or forgotten properties belonging to North Carolina citizens.
- Reuniting these properties with the rightful owner.
- Remitting to the State Education Assistance Authority (SEAA) the interest earnings on the funds invested.

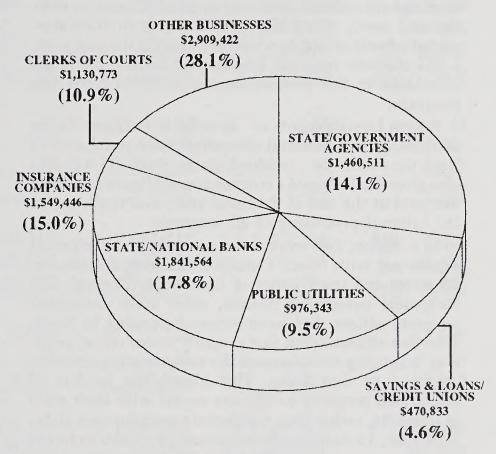
This program provides a most unusual service to the State.

Responsibilities — North Carolina ranks 10th in the nation in the amount of unclaimed or forgotten property recovered on behalf of its citizens. The property received comes from financial institutions, businesses,

public utilities, state governmental agencies, Offices of the Clerks of Superior Court, etc. (Chart 24). The property itself is in the form of unclaimed savings accounts, uncashed checks, unclaimed utility deposits or unidentified remittances. During the past fiscal year, \$10,338,892 (Chart 25) in cash was received from the aforementioned entities. In addition, stocks and mutual funds with a market value in excess of \$1.2 million were also received.

Chart 24

UNCLAIMED FUNDS COLLECTED Year Ending June 30, 1990



North Carolina ranks "second to none" in its attempts to reunite unclaimed property with the rightful owner. State law requires only that this program mail the list of names and addresses of these property owners to the Clerk of Superior Court in the county in which they live. The fact that the list is at the Clerk of Court's Office is advertised in two newspapers of general circulation for two consecutive weeks. As additional measures, however, the program also delivers a duplicate list to one newspaper in each county, along with a news release and a request to reprint the list. Generally, 85 to 90 percent of the newspapers will reprint the list as a public service; and it's this service that generates most of the refund requests from owners. Additional attempts to locate owners involve computer matches with the North Carolina Department of Motor Vehicles and the North Carolina Department of Revenue to identify current addresses of owners. Also, a contract was entered into with a credit bureau in order to access their 200 million name data base in an effort to obtain the owners' current addresses. These techniques were extremely successful in refunding \$1,494,033 to 3,882 owners last year.

Work also began on plans for establishing a mobile "locator booth" which could be placed in areas of public gathering, such as malls, the State Fair, and the program's own annual unclaimed property auction of tangible property. By utilizing a personal computer with a modem to the mainframe computer, individuals could search for their names at these locations. The success rate for this operation in other states (1 out of 10 located) should be similar for North Carolina.

In complying with the responsibility of remitting interest earnings to the SEAA, the Program remitted \$5,127,372 this year. While the principal remains for claims by the rightful owners or their heirs, the interest earnings are utilized each year to provide loans to worthy and needy North Carolina students in State supported schools of higher education. During the past year, 1,854 students received low-interest loans directly attributable to the interest income received from this program.

Recent Developments — In order to facilitate claims processing, two personal computers were purchased to track the claims (i.e., received, status, paid). This system also gives the Program a current accrual figure on claims not paid at the end of the fiscal year, and it allows for the internal processing of all warrants.

In addition, two more states entered into a reciprocal agreement with North Carolina, bringing the total to 23 states and the District of Columbia. Through this reciprocal agreement process, other state unclaimed property offices that have money belonging to North Carolina citizens remit that property to our office; property belonging to citizens of the reciprocating state are remitted to that State. This allows the holders of unclaimed property to file one report with their state of domicile, rather than a different report for each state. Last year, 15 states made reciprocal payments to North Carolina amounting to \$398,402. North Carolina made payments to 20 reciprocal states amounting to \$351,919.

In an effort to resolve the growing complexity of receiving, reissuing and refunding securities and mutual funds, the Escheat and Unclaimed Property Program entered into a custodian agreement with an in-state financial institution. Under this agreement, all securities and mutual funds will be delivered to the custodian, be reissued in the name of "North Carolina State Treasurer Escheat Fund" and then be held in "street" or "nominee" names. If an owner can be located, the property would be reissued in the owner's name. Otherwise, the securities and mutual funds could easily be sold a year after the owner's name is advertised. This agreement will allow for an increased level of securities safekeeping, expedite the return of the security to the rightful owner, reduce the direct cost of postage for registered mail as previously required, and increase the speed with which dividends and sale proceeds are available for investment on behalf of the Escheat and Unclaimed Property Program.

Finally, the Escheat and Unclaimed Property Program entered into contracts with the Unclaimed Property Clearinghouse and the National Abandoned Property Processing Corporation. These two organizations audit for unclaimed property in large corporations, primarily in the securities and mutual fund industry. It is anticipated that the service provided by these vendors should increase the securities and mutual funds received twofold, while greatly minimizing expenses incurred to recover these monies.

ESCHEAT FUND FACT SHEET

	FY7/1/1986 6/30/87	FY7/1/1987 6/30/88	FY7/1/1988 6/30/89	FY7/1/1989 6/30/90
Funds Escheated:				
Estates and Trusts	\$ 51,560	\$ 21,022	\$ 54,024	\$ —
Clerks of State Courts	1,114,059	1,683,833	1,708,607	1,130,773
State and National Banks	1,770,689	1,249,676	1,799,259	1,841,564
Savings & Loan Associations and				
Credit Unions	861,358	620,219	574,309	470,833
Insurance Companies	990,511	1,028,470	1,160,896	1,549,446
Public Utilities and Membership Co-ops	612,679	323,805	779,755	976,343
State and Governmental Agencies	852,065	869,439	735,267	1,460,511
Other Businesses	805,345	1,987,423	2,597,884	2,909,422
Reciprocal Agreements	(1)	(1)	127,378	398,402
Interest Penalties	N/A	11,199	32,259	33,145
Total Funds Escheated	<u>\$ 7,058,266</u>	<u>\$ 7,795,086</u>	\$ 9,569,638	\$10,770,439
Number of Reciprocal Agreements	16	19	22	24
Number of Positive Reports Received	1,779	2,083	2,378	2,320
Number of Reciprocal Reports Received	11	13	10	15
Total Reports Received	1,790	2,096	2,388	2,335
Amount of Funds Escheated	\$ 6,990,316	\$ 7,664,442	\$ 9,442,260	\$10,372,037
Amount Received from Reciprocal States	67,950	130,644	127,378	398,402
Total Escheats Received	<u>\$ 7,058,266</u>	<u>\$ 7,795,086</u>	\$ 9,569,638	\$10,770,439
Number of Refunds Paid	3,698	3,728	3,403	3,882
Number of Refunds to Reciprocal States	13	14	14	20
Total Refunds Paid	3,711	3,742	3,417	3,902
Amount of Refunds Paid	\$ 1,006,181	\$ 1,289,842	\$ 1,684,807	\$ 1,494,033
Amount Sent to Reciprocal States	86,629	100,045	150,631	351,919
Total Amount Refunded	<u>\$ 1,092,810</u>	<u>\$ 1,389,887</u>	<u>\$ 1,835,438</u>	\$1,845,952
Investment Income	\$ 3,934,305	\$ 4,565,072	\$ 5,331,556	\$ 5,867,201
Less Administrative Expenses	361,682	442,847	681,052	739,829
Amount Remitted to SEAA	\$ 3,572,623	\$ 4,122,225	\$ 4,650,504	\$ 5,127,372
# of Loans Made Available to Students	1,495	1,812	1,727	1,854
Fund Balance	\$42,442,875	\$48,790,823	\$56,680,259	\$65,368,141

⁽¹⁾ Funds received through reciprocal agreements in these years were included in the categories of the holder who remitted to the reciprocal state.

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Financial Statements

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DEPARTMENT OF STATE TREASURER COMBINED BALANCE SHEET ALL DEPARTMENTAL OPERATING FUND TYPES AND ACCOUNT GROUPS JUNE 30, 1990

	Governmental Fund Type
	General Fund
ASSETS	(Departmental)
Cash and cash equivalents	\$ 75,764
Accounts receivable - interdepartmental	34,795
Accounts receivable - local government	68,921
Accounts receivable - contributions	
Accounts receivable - other	9,612
Accrued interest receivable	
Inventories	35,454
Investments	
Fixed assets	
Total Assets	<u>\$224,546</u>
LIABILITIES AND FUND EQUITY	
Liabilities:	
Accounts payable - federal government	\$
Accounts payable - local government	
Accounts payable - interdepartmental	
Accounts payable - other	398,157
Accrued expenses	_550,480
Total Liabilities	948,637
Fund Equity:	
Investment in fixed assets	
Fund Balance:	
Reserved for trust beneficiaries	110/17 - 5
Reserved for inventories	35,454
Unreserved	(759,545)
Total Fund Balance	(724,091)
Total Fund Equity	(724,091)
Total Liabilities and Fund Balance	\$224,546

	Fiduciary Fund Type		Account Group	Total
Expendable Trust Funds	Pension <u>Funds</u>	Agency <u>Fund</u>	Fixed Assets (Departmental)	(Memorandum Only)
\$ 24,613,762 223,002	\$ 92,938,952	\$130,616,394	\$	\$ 248,244,872 257,797 68,921
12,306,788 485,043	94,629,188 362,623			106,935,976 857,278
128,782	777,422	728,816		1,635,020 35,454
212,928,464	16,413,662,039		2,363,466	16,626,590,503 2,363,466
\$250,685,841	\$16,602,370,224	\$131,345,210	\$2,363,466	\$16,986,989,287
\$ 304,850	\$	\$ 131,345,210	\$	\$ 304,850 131,345,210
5,266,629 4,834,386	106,057			5,266,629 5,338,600 550,480
10,405,865	106,057	131,345,210		142,805,769
			2,363,466	2,363,466
940 970 970	10,000,004,107			10.040 544 140
240,279,976	16,602,264,167			16,842,544,143 35,454 (759,545)
240,279,976	16,602,264,167			16,841,820,052
240,279,976 \$250,685,841	$\frac{16,602,264,167}{\$16,602,370,224}$	\$131,345,210	$\frac{2,363,466}{\$2,363,466}$	$\frac{16,844,183,519}{\$16,986,989,287}$

DEPARTMENT OF STATE TREASURER COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE ALL DEPARTMENTAL OPERATING FUND TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 1990

Fund Type General Fund (Departmental)			Governmental
Departmental			Fund Type
Investment income			
Investment income			
Contributions (employer/employee) 225,208 Federal grants 225,208 Court fees 5,153,095 Income tax check-off 5,153,095 Miscellaneous 19,887 Total Revenues 5,398,190 Expenditures: Current administration General 420,913 Escheats 701,745 Investment and banking 2,665,031 State and local government finance 1,530,625 Retirement systems 4,146,001 Advisory Council on Education 228,642 Retirement and other benefits paid 228,642 Retirement and other benefits paid 9,692,957 Revenues Over (Under) Expenditures 9,692,957 Revenues Over (Under) Expenditures (4,294,767) Other Financing Sources (Uses): 3,587,235 Appropriations 3,587,235 Interdepartmental 190,931 Revenues and Other Financing Sources Over (Under) (516,601) Fund Balance: July 1, 1989 (219,275) Adjust Reserve for Related Assets 11,785	Revenues:		
Federal grants	Investment income		\$
Court fees Current year's escheats Service charges 5,153,095 Income tax check-off 19,887 Total Revenues 5,398,190 Expenditures: Current administration General 420,913 Escheats 701,745 Investment and banking 2,665,031 State and local government finance 1,530,625 Retirement systems 4,146,001 Advisory Council on Education 228,642 Retirement and other benefits paid Refunds Payments to political parties Management fees Total Expenditures 9,692,957 Revenues Over (Under) Expenditures (4,294,767) Other Financing Sources (Uses): 3,587,235 Appropriations 3,587,235 Interdepartmental 190,931 Revenues and Other Financing Sources Over (Under) (516,601) Fund Balance: July 1, 1989 (219,275) Adjust Reserve for Related Assets 11,785	Contributions (employer/employee)		
Current year's escheats 5,153,095 Service charges 5,153,095 Income tax check-off 19,887 Miscellaneous 19,887 Total Revenues 5,398,190 Expenditures: 2 Current administration 420,913 Escheats 701,745 Investment and banking 2,665,031 State and local government finance 1,530,625 Retirement systems 4,146,001 Advisory Council on Education 228,642 Retirement and other benefits paid 228,642 Retirement sto political parties 9,692,957 Revenues Over (Under) Expenditures 9,692,957 Revenues Over (Under) Expenditures (4,294,767) Other Financing Sources (Uses): 3,587,235 Appropriations 3,587,235 Interdepartmental 190,931 Revenues and Other Financing Sources Over (Under) (516,601) Fund Balance: July 1, 1989 (219,275) Adjust Reserve for Related Assets 11,785	Federal grants		225,208
Service charges 5,153,095 Income tax check-off 19,887 Miscellaneous 5,398,190 Expenditures:	Court fees		
Income tax check-off Miscellaneous 19,887 Total Revenues 5,398,190 Expenditures:	Current year's escheats		
Miscellaneous 19,887 Total Revenues 5,398,190 Expenditures: Current administration General 420,913 Escheats 701,745 Investment and banking 2,665,031 State and local government finance 1,530,625 Retirement systems 4,146,001 Advisory Council on Education 228,642 Retirement and other benefits paid Refunds Payments to political parties Management fees Total Expenditures 9,692,957 Revenues Over (Under) Expenditures (4,294,767) Other Financing Sources (Uses): 3,587,235 Appropriations 3,587,235 Interdepartmental 190,931 Revenues and Other Financing Sources Over (Under) (516,601) Fund Balance: July 1, 1989 (219,275) Adjust Reserve for Related Assets 11,785	Service charges		5,153,095
Expenditures: 2 Current administration 420,913 Escheats 701,745 Investment and banking 2,665,031 State and local government finance 1,530,625 Retirement systems 4,146,001 Advisory Council on Education 228,642 Retirement and other benefits paid 228,642 Refunds 28,942 Payments to political parties 9,692,957 Revenues Over (Under) Expenditures 4,294,767 Other Financing Sources (Uses): 3,587,235 Appropriations 3,587,235 Interdepartmental 190,931 Revenues and Other Financing Sources Over (Under) (516,601) Fund Balance: July 1, 1989 (219,275) Adjust Reserve for Related Assets 11,785	Income tax check-off		
Expenditures: Current administration General	Miscellaneous		19,887
Current administration 420,913 General 420,913 Escheats 701,745 Investment and banking 2,665,031 State and local government finance 1,530,625 Retirement systems 4,146,001 Advisory Council on Education 228,642 Retirement and other benefits paid Refunds Payments to political parties 9,692,957 Revenues Over (Under) Expenditures (4,294,767) Other Financing Sources (Uses): 3,587,235 Appropriations 3,587,235 Interdepartmental 190,931 Revenues and Other Financing Sources Over (Under) (516,601) Fund Balance: July 1, 1989 (219,275) Adjust Reserve for Related Assets 11,785	Total Revenues		5,398,190
General 420,913 Escheats 701,745 Investment and banking 2,665,031 State and local government finance 1,530,625 Retirement systems 4,146,001 Advisory Council on Education 228,642 Retirement and other benefits paid Refunds Payments to political parties	Expenditures:		
Escheats 701,745 Investment and banking 2,665,031 State and local government finance 1,530,625 Retirement systems 4,146,001 Advisory Council on Education 228,642 Retirement and other benefits paid Refunds Payments to political parties Management fees Total Expenditures 9,692,957 Revenues Over (Under) Expenditures (4,294,767) Other Financing Sources (Uses): Appropriations 3,587,235 Interdepartmental 3,587,235 Interdepartmental 1,90,331 Revenues and Other Financing Sources Over (Under) Expenditures (516,601) Fund Balance: July 1, 1989 (219,275) Adjust Reserve for Related Assets 11,785	Current administration		
Investment and banking 2,665,031 State and local government finance 1,530,625 Retirement systems 4,146,001 Advisory Council on Education 228,642 Retirement and other benefits paid Refunds Payments to political parties Management fees Total Expenditures 9,692,957 Revenues Over (Under) Expenditures (4,294,767) Other Financing Sources (Uses): Appropriations 3,587,235 Interdepartmental 190,931 Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (516,601) Fund Balance: July 1, 1989 Adjust Reserve for Related Assets 11,785	General		420,913
State and local government finance Retirement systems Advisory Council on Education Retirement and other benefits paid Refunds Payments to political parties Management fees Total Expenditures Revenues Over (Under) Expenditures Other Financing Sources (Uses): Appropriations Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Revenues Over (Under) Expenditures Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (516,601) Fund Balance: July 1, 1989 Adjust Reserve for Related Assets 1,785	Escheats		701,745
State and local government finance Retirement systems Advisory Council on Education Retirement and other benefits paid Refunds Payments to political parties Management fees Total Expenditures Revenues Over (Under) Expenditures Other Financing Sources (Uses): Appropriations Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Revenues Over (Under) Expenditures Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (516,601) Fund Balance: July 1, 1989 Adjust Reserve for Related Assets 1,530,625 4,146,001 228,642 228,642 248,642 258,642 268,642 3,692,957	Investment and banking		2,665,031
Retirement systems Advisory Council on Education Retirement and other benefits paid Refunds Payments to political parties Management fees Total Expenditures Revenues Over (Under) Expenditures Other Financing Sources (Uses): Appropriations Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (516,601) Fund Balance: July 1, 1989 Adjust Reserve for Related Assets 4,146,001 228,642 28,642 4,146,001 228,642 4,294,767			1,530,625
Retirement and other benefits paid Refunds Payments to political parties Management fees Total Expenditures Revenues Over (Under) Expenditures Other Financing Sources (Uses): Appropriations Appropriations Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Fund Balance: July 1, 1989 Adjust Reserve for Related Assets Agenues Sources (Uses): (219,275) Adjust Reserve for Related Assets	Retirement systems		4,146,001
Refunds Payments to political parties Management fees Total Expenditures Revenues Over (Under) Expenditures Other Financing Sources (Uses): Appropriations Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Fund Balance: July 1, 1989 Adjust Reserve for Related Assets Appropriations (516,601)	Advisory Council on Education		228,642
Payments to political parties Management fees Total Expenditures Revenues Over (Under) Expenditures Other Financing Sources (Uses): Appropriations Appropriations Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (516,601) Fund Balance: July 1, 1989 Adjust Reserve for Related Assets (219,275) Adjust Reserve for Related Assets			
Management fees Total Expenditures Revenues Over (Under) Expenditures Other Financing Sources (Uses): Appropriations Appropriations Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Fund Balance: July 1, 1989 Adjust Reserve for Related Assets Management fees 9,692,957 (4,294,767) (4,294,767) (4,294,767) (516,601)			
Revenues Over (Under) Expenditures (4,294,767) Other Financing Sources (Uses): Appropriations 3,587,235 Interdepartmental 190,931 Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (516,601) Fund Balance: July 1, 1989 Adjust Reserve for Related Assets (219,275) Adjust Reserve for Related Assets			
Other Financing Sources (Uses): Appropriations Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (516,601) Fund Balance: July 1, 1989 Adjust Reserve for Related Assets (219,275) Adjust Reserve for Related Assets	Total Expenditures		9,692,957
Other Financing Sources (Uses): Appropriations Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (516,601) Fund Balance: July 1, 1989 Adjust Reserve for Related Assets (219,275) Adjust Reserve for Related Assets			
Appropriations Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Fund Balance: July 1, 1989 Adjust Reserve for Related Assets 3,587,235 190,931 (516,601)	Revenues Over (Under) Expenditures		(4,294,767)
Interdepartmental Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Fund Balance: July 1, 1989 Adjust Reserve for Related Assets (219,275) 11,785	Other Financing Sources (Uses):		
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Fund Balance: July 1, 1989 Adjust Reserve for Related Assets (219,275) 11,785	Appropriations		3,587,235
Expenditures and Other Financing Uses Fund Balance: July 1, 1989 Adjust Reserve for Related Assets (516,601) (219,275) 11,785	Interdepartmental		190,931
Fund Balance: July 1, 1989 Adjust Reserve for Related Assets 11,785	Revenues and Other Financing Sources Ov	ver (Under)	
Adjust Reserve for Related Assets 11,785	Expenditures and Other Financing Uses		(516,601)
			(219,275)
Fund Balance: June 30, 1990 \$ (724,091)	Adjust Reserve for Related Assets		11,785
	Fund Balance: June 30, 1990		\$ (724,091)

	Fiduciary Fund Types	Total
Expendable Trust Funds	Pension Funds	(Memorandum Only)
\$ 19,288,509 131,891,545	\$ 1,423,622,636 1,041,183,218	\$ 1,442,911,145 1,173,074,763 225,208
975,454 10,770,439	4,386,271	5,361,725 10,770,439 5,153,095
$ \begin{array}{r} 386,684 \\ \underline{51,491} \\ \underline{163,364,122} \end{array} $	$ \begin{array}{r} 535,690 \\ 2,469,727,815 \end{array} $	$ \begin{array}{r} 386,684 \\ 607,067 \\ \hline 2,638,490,126 \end{array} $
9,037		420,913 710,782 2,665,031 1,530,625 4,146,001 228,642
94,066,220 2,139,398 314,113	655,637,784 70,522,376	749,704,004 72,661,773 314,113
$\frac{1,180,168}{97,708,936}$	3,535,042 729,695,202	
65,655,186	1,740,032,613	1,801,393,031
(5,127,372)		3,587,235 (4,936,441)
60,527,814	1,740,032,613	1,800,043,825
179,752,162	14,862,231,554	15,041,764,441 11,785
\$240,279,976	\$16,602,264,167	\$16,841,820,052

DEPARTMENT OF STATE TREASURER STATEMENT OF DEPARTMENTAL RECEIPTS AND EXPENDITURES BUDGET AND ACTUAL (BUDGETARY BASIS) GENERAL FUND (Departmental Activities Only) FOR THE FISCAL YEAR ENDED JUNE 30, 1990

			Variance Favorable
	Budget	Actual	(Unfavorable)
Departmental Expenditures			
Current administration:			
General administration	\$ 688,467	\$ 607,051	\$ 81,416
Escheat operations	875,643	732,421	143,222
Word processing	255,558	184,221	71,337
Data processing	1,397,485	1,119,269	278,216
Investment & banking operations	3,157,375	2,583,996	573,379
Local government operations	1,586,552	1,441,449	145,103
State bond issuance cost	105,569	75,183	30,386
Retirement operations	4,474,562	3,933,335	541,227
Advisory Council on Education	265,739	221,962	43,777
Reserves and transfers	40,008		40,008
Total Departmental Expenditures	12,846,958	10,898,887	1,948,072
Departmental Receipts			
Current administration:			
General administration	244,940	299,028	54,088
Escheat operations	875,643	732,421	(143, 222)
Word processing	255,558	184,221	(71,337)
Data processing	1,397,485	1,119,269	(278, 216)
Investment & banking operations	109,269	195,240	85,971
Local government operations	502,869	550,992	48,123
State bond issuance cost	105,569	75,183	(30,386)
Retirement operations	4,474,602	3,933,335	(541, 267)
Advisory Council on Education	265,739	221,962	(43,777)
Reserves and transfers	23,850		(23,850)
Total Departmental Receipts	8,255,524	7,311,651	(943,873)
Appropriation	\$ 4,591,434	\$ 3,587,235	\$1,004,199

The accompanying Notes to the Financial Statements are an integral part of this Statement.

NORTH CAROLINA DEPARTMENT OF STATE TREASURER NOTES TO THE FINANCIAL STATEMENTS ALL DEPARTMENTAL OPERATING FUND TYPES AND ACCOUNT GROUPS JUNE 30, 1990

1. Principles of Presentation .

These statements include all operations of budgetary funds administered by the Department of State Treasurer. They do not reflect, nor are they intended to reflect, the financial statements of the State of North Carolina. Nor do they reflect the investment activity of the State Treasurer except the results as shown in the budgetary funds. The activity of the investment pools is shown in separate financial statements published concurrently herewith. These operations are broken down by type of fund as follows:

A. Governmental Fund Types — Departmental Operations Only

General Fund — The operations shown include all administrative expenses and offsetting revenues in budget code 13410. Unexpended federal grant revenues in budget code 33410 are also included.

B. Fiduciary Fund Types

Expendable Trust Funds — Includes thirteen trust funds whose corpus and income are restricted by law to expenditures necessary to carry out the funds' purpose. These trust funds are:

Disability Income Plan of North Carolina (Budget Code 63421)
Public Employees' Social Security Agency Fund (Budget Code 63411)
Teachers' and State Employees' Benefit Fund (Budget Code 63429)
Political Parties Finance Fund (Budget Code 63414)
Escheat Fund (Budget Code 63412)
Assurance of Land Title Fund (Budget Code 63415)
Legislative Retirement Fund (Budget Code 63422)
Absentee Insurance Fund (Budget Code 63416)
Presidential Election Year Campaign Fund (Budget Code 63418)
Pine Mountain Lakes Lot Purchase Fund (Budget Code 63419)
Register of Deeds Supplemental Pension Fund (Budget Code 63432)
Solid Waste Management Loan Trust Fund (Budget Code 63440)
Educational Facilities Finance Agency (Budget Code 63440)

Pension Funds — Includes five retirement trust funds:

Teachers' and State Employees' Retirement System (Budget Code 63423) Local Governmental Employees' Retirement System (Budget Code 63426) Consolidated Judicial Retirement System (Budget Code 63425) N. C. National Guard Pension Fund (Budget Code 63430) Legislative Retirement System (Budget Code 63431)

Agency Fund — Includes one fund to account for deposits made to the State Treasurer by local governmental units for investment purposes (Budget Code 03410).

C. The Fixed Asset Account Group is a self-balancing set of accounts to record the stewardship of the Department for the furniture and equipment bought and used in the Department.

The financial statements are presented in accordance with the Statements of the Governmental Accounting Standards Board. The presentation differs from the classic presentations because of fundamental differences in operations in the Department from those illustrated in the classic presentations because the Pension Funds purchase administrative services from the Central Fund by payment of management fees; there is no difference in the application of accounting principles between the pension funds and the governmental fund types. We have for the convenience of the reader included the pension funds with the governmental fund types in the Statement of Revenues, Expenditures and Changes in Fund Balance.

2. Summary of Significant Accounting Policies

A. Basis of Accounting — Governmental and expendable trusts are accounted for on the cash basis of accounting during the year. At year end, necessary adjusting journal entries are made to change the basis of accounting to the modified accrual basis, which is the basis on which the funds are reported in these financial statements. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available to pay current-period liabilities. Expenditures are recognized on the accrual basis except that purchases of supplies for inventory are recognized as expenditures in the period in which the supplies were received.

Pension trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses when incurred.

- B. Budgetary Control Budgetary control is exercised only over the operations accounted for by the Department in the General Fund. The budget as shown in the statements is the budget as adopted by the General Assembly and as modified in accordance with established statutory procedures. All appropriations lapsed at the end of the year.
- C. Cash and Cash Equivalents are the moneys of the various funds which the State Treasurer holds by law for transactional purposes. Interest is earned on the balances.
- D. Inventories Inventories consist solely of postage and supplies and are recorded at estimated actual costs.
- E. Fixed Assets Fixed assets are recorded at acquisition costs. The account group includes only those assets purchased by the Department and currently in service in the Department. Since all assets are acquired through the General Fund and used in General Fund operations, no depreciation is recognized.
- F. Trust Fund Assets and Equity Assets of trust funds are maintained at cost. The net assets of each trust fund are held solely for the benefit of the lawful beneficiaries of the trust funds. Net assets of trust funds are shown in the financial statements as fund balance reserved for trust beneficiaries.
- G. Investments and Investment Income It is the policy of the State to treat investments in, and investment income from, the Investment Pools of the State Treasurer as quasi-external transactions. Consequently the investments by the trust funds in the investment pools with medium to long-term horizons are shown as investments, and allocations of income from the investment pools are shown as investment income. Allocations of investment income are made by the investment pools on a pro rata basis from net income of each fund.
- H. Management Fees All administrative operations are accounted for in the General Fund. Each trust fund benefiting from the administration is charged its calculated share of the administrative costs. Management fees are considered quasi-external transactions.
- I. Interdepartmental Transfer/Receivable/Payable The major elements are transfers of resources to carry out programmatic activities in the receiving fund.
- J. Vacation and Sick Pay Vacation and sick pay are recorded as expenditures only when taken (or paid in the case of vacation pay of retiring or terminating employees).

3. Deposits and Investments

Deposits and investments are reported in detail in the financial statements of the Pooled Investment Fund in the State Treasurer's Annual Report for June 30, 1990. As reported therein more fully, there are no material amounts of deposits which are not fully insured or collateralized. Total investments in short-term investments have a book value of \$3,185,933,092 and a market value of \$3,192,842,037. Investments in longer term securities have a book value of \$16,173,986,130 and a market value of \$17,606,687,752.

4. Reconciliation of Budgetary Basis and GAAP Basis

The Combined Statement of Revenues and Expenditures — Budget and Actual for the General Fund presents the comparisons of the legally adopted budget with actual data recorded on the budgetary basis. Since there are substantial differences between the budgetary basis of accounting and the GAAP basis of accounting, the following provides the reconciliation between the two bases of accounting:

	Revenues	Expenditures	Fund Balance
Per budgetary basis, June 30, 1990	\$7,311,651	\$10,898,886	\$
Eliminate refunds of expenditures from both expenditures and receipts	(1,602,459)	(1,602,459)	
Eliminate carry-forwards from receipts and expenditures		(73,000)	73,000
Reclassify items to Transfers	(261,641)	(70,710)	
Net change in accruals at beginning and end of year	(49,361)	540,240	(589,601)
Adjustment to reserve fund balance			11,785
Fund balance at beginning of year Per GAAP basis, June 30, 1990	\$5,398,190	\$ 9,692,957	(219,275) (\$724,091)

There were no expenditures in excess of appropriations in a budget during the year.

5. Vacation and Sick Leave

The Department, in accordance with State policy, records the cost of vacation and sick leave when taken and paid rather than when the leave is earned. State policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or paid upon termination of employment with the State. Under this policy, the accumulated vacation leave for each employee at each June 30th would equal the leave carried forward at the previous December 31 plus the leave earned and less the leave taken between January 1 and June 30. The accumulation of unused sick leave earned is unlimited, but the employee cannot be compensated for any unused sick leave upon termination of employment. Consequently, at June 30, 1990 the Department had an actual, but unrecorded, liability for unused vacation leave in the amount of \$372,724 and a contingent liability for the unused sick leave in the amount of \$1,133,813.

6. General Fund — Departmental Deficit

The data shown for the General Fund in the financial statements is only that part of the General Fund operated through the Department. Negative figures shown are the accumulated differences in accruals between the budgetary basis and the GAAP basis. On the budgetary basis, there is a zero fund balance for the Department.

7. Fixed Assets

The breakdown by type of fixed assets at book value and the changes in fixed assets during the year are:

	Beginning Balance	Acquisitions	Retirements	Ending Balance
Office Furniture and Equipment	\$ 466,164	\$ 21,606	\$27,822	\$ 459,948
Data Processing Equipment	1,787,664	155,203	39,349	1,903,518
Total Fixed Assets	\$2,253,828	<u>\$176,809</u>	\$67,171	\$2,363,466

No depreciation has been recorded on any fixed asset.

8. Pensions

All full-time permanent personnel in the Department are members of the Teachers' and State Employees' Retirement System. Total pension expense recorded during the year was \$569,247. Information on the Retirement System may be found in the annual report of the Department.

DEPARTMENT OF STATE TREASURER COMBINING BALANCE SHEET DEPARTMENTAL EXPENDABLE TRUST FUNDS JUNE 30, 1990

ASSETS	Escheat <u>Fund</u>	Disability Salary Income Plan of North Carolina	Teachers' and State Employees' Benefit Fund	Public Employees' Social Security Agency Fund
Cash and cash equivalents	\$ 8,696,733	\$ 3,342,089	\$ 10,888,785	\$385,116
Accounts receivable - interdepartmental Accounts receivable - contributions		2,755,538	9,485,475	
Accounts receivable - other		483,941	1,102	
Accrued interest receivable	60,071	17,559	25,779	3,522
Investments	61,893,622	56,780,170	92,940,029	0,022
Total Assets	\$70,650,426	\$63,379,297	\$113,341,170	\$388,638
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable - federal government	\$	\$	\$	\$304,850
Accounts payable - interdepartmental	5,127,372		139,257	
Accounts payable - other	154,913	25,947	4,653,526	
Total Liabilities	5,282,285	25,947	4,792,783	304,850
Fund balance				
Reserved for trust beneficiaries	65,368,141	63,353,350	108,548,387	83,788
Total Fund Balance	65,368,141	63,353,350	108,548,387	83,788
Total Liabilities and Fund Balance	\$70,650,426	\$63,379,297	\$113,341,170	\$388,638
Total Diabilitios and Fund Dalance	Ψ10,000,420	Ψου, στο, Δοτ	Ψ110,041,170	φυσο, συσ

			Assurance		Presidential	Pine Mountain	Educational	Solid	Total
	Reg. of Deeds		of Land	Absentee	Election Year	Lakes Lot	Facilities	Waste	Expendable
	Supplemental	, , , ,	Title	Insurance	Campaiagn	Purchase	Finance	Management	Trust
<u>Fund</u>	Pension Fund	_ Fund	<u>Fund</u>	<u>Fund</u>	Fund	Fund	Agency	Loan Trust	Funds
\$19,232	\$ 245,444	\$114,091		\$154,007	\$279,688	\$13,420	\$81,902	\$354,825	\$ 24,613,762
		223,002							223,002
	65,775								12,306,788
									485,043
140	1,198	875	265	1,065	1,934	93		16,281	128,782
	1,314,643								212,928,464
\$19,372	\$1,627,060	\$337,968	\$38,695	\$155,072	\$281,622	\$13,513	\$81,902	\$371,106	\$250,685,841
		1		<u></u>	1==7==			1	
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 304,850
	•	т	т	T	т	т	т	_	5,266,629
									4,834,386
									10,405,865
19,372	1,627,060	337,968	38,695	155,072	281,622	13,513	81,902	371,106	240,279,976
19,372	1,627,060	337,968	38,695	155,072	281,622	13,513	81,902	371,106	240,279,976
\$19,372	\$1,627,060				\$281,622				
$\frac{\varphi_1\vartheta,\Im 7Z}{}$	$\frac{\varphi_1,027,000}{}$	φυυί, συο	φ30,090	φ100,072	φ201,022	<u>\$13,513</u>	\$81,902	<u>\$371,106</u>	<u>\$250,685,841</u>

DEPARTMENT OF STATE TREASURER COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE DEPARTMENTAL EXPENDABLE TRUST FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Escheat Fund	North Carolina Disability Fund	Teachers' and State Employees' Benefit Fund	Public Employees' Social Security Agency Fund
Revenues				
Investment income Contributions (employer/employee) Court fees	\$ 5,974,743	\$ 4,628,135 28,871,744	\$ 8,107,168 102,193,390 974,724	\$38,235
Current year's escheats	10,770,439		0.00	
Income tax check-off				
Miscellaneous	345			
Total Revenues	16,745,527	33,499,878	111,275,281	38,235
Expenditures Current administration				
Escheats	9,037			
Retirement and other benefits paid	3,007	8,973,445	84,768,252	
Refunds	1,904,091	0,010,110	234,679	
Payments to political parties	_,001,001		201,000	
Management fees	730,792	236,060	55,298	
Total Expenditures	2,643,920	9,209,505	85,058,229	
Revenues Over (Under) Expenditures	14,101,607	24,290,373	26,217,052	38,235
Other Financing Sources (Uses) Intradepartmental				
Interdepartmental	(5,127,372)			
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	8,974,235	24,290,373	26,217,052	38,235
Exponential & and Other I manering USES	0,014,200	24,200,010	20,211,002	30,233
Fund Balance: July 1, 1989	56,393,906	39,062,977	82,331,336	45,553
Fund Balance: June 30, 1990	<u>\$65,368,141</u>	<u>\$63,353,350</u>	<u>\$108,548,387</u>	\$83,788

Legislative Retirement Fund	Reg. of Deeds Supplemental Pension Fund	Election Campaign Fund	Assurance of Land Title Fund	Absentee Insurance Fund	Presidential Election Year Campaign Fund	Pine Mountain Lakes Lot Purchase Fund	Educational Facilities Finance Agency	Solid Waste Management Loan Trust	Total Expendable Trust Funds
\$ 1,534 84,497	\$ 122,086 741,915	\$ 4,793 386,684	\$ 2,901 730	\$ 15,684	\$ 21,018	\$ 1,106	\$	\$371,106	\$ 19,288,509 131,891,545 975,454 10,770,439 386,684
86,031	864,001	391,477	3,631	8,626 24,310	21,018	1,106	$ \begin{array}{r} 42,520 \\ 42,520 \end{array} $	371,106	51,491 163,364,121
_00,001	004,001	001,411	0,001		21,010		_42,020	011,100	100,004,121
84,375 628	240,147								9,037 94,066,220 2,139,398
	1	314,113					10.000		314,113
	145,716						12,302		1,180,168
85,003	385,863	314,113	0.001	04.010	<u></u>	1.100	12,302		97,708,936
1,028	478,138	77,364	3,631	24,310	21,018	1,106	30,218	371,106	65,655,185
		(260,604)			260,604				(5,127,372)
1,028	478,138	(183,240)	3,631	24,310	281,622	1,106	30,218	371,106	60,527,813
18,344	1,148,922	521,208	35,064	130,762		12,407	51,684		179,752,163
<u>\$19,372</u>	<u>\$1,627,060</u>	<u>\$337,968</u>	<u>\$38,695</u>	<u>\$155,072</u>	<u>\$281,622</u>	<u>\$13,513</u>	<u>\$81,902</u>	\$371,106	\$240,279,976

DEPARTMENT OF STATE TREASURER COMBINING BALANCE SHEET DEPARTMENTAL PENSION FUNDS JUNE 30, 1990

ASSETS	Teachers' and State Employees' Retirement System	Local Governmental Employees' Retirement System
Cash and cash equivalents Accounts receivable - contributions Accounts receivable - other Accrued interest receivable Investments Total Assets	$\begin{array}{r} \$ 50,846,654 \\ 74,986,096 \\ 212,913 \\ 382,724 \\ \underline{13,345,823,423} \\ \$13,472,251,810 \end{array}$	$\begin{array}{c} \$ 36,682,884 \\ 18,796,876 \\ 149,710 \\ 361,018 \\ \underline{2,963,054,529} \\ \$ 3,019,045,017 \end{array}$
LIABILITIES AND FUND EQUITY		
Liabilities	*	
Accounts payable - other	\$ 69,847	\$ 32,849
Total Liabilities	69,847	32,849
Fund Balance		
Reserved for trust beneficiaries	13,472,181,963	3,019,012,168
Total Fund Balance	13,472,181,963	3,019,012,168
Total Liabilities and Fund Balance	\$13,472,251,810	\$3,019,045,017

Consolidated Judicial Retirement System	National Guard Pension Fund	Legislative Retirement System	Total Pension Funds
\$ 2,379,023 775,130	\$2,561,094	\$ 469,297 71,086	\$ 92,938,952 94,629,188 362,623
13,267	17,850	2,563	777,422
92,886,243	6,956,279	4,941,565	16,413,662,039
\$96,053,663	\$9,535,223	\$5,484,511	\$16,602,370,224
\$ 40 40	$\frac{\$ 3,321}{3,321}$	<u>\$</u>	\$ 106,057 106,057
96,053,623	_9,531,902	_5,484,511	_16,602,264,167
96,053,623	9,531,902	5,484,511	16,602,264,167
\$96,053,663	\$9,535,223	<u>\$5,484,511</u>	\$16,602,370,224

DEPARTMENT OF STATE TREASURER COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE DEPARTMENTAL PENSION FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Teachers' and State Employees' Retirement System	Local Governmental Employees' Retirement System
Revenues	A 1 122 010 110	A 050 050 011
Investment income	\$ 1,155,613,118	\$ 258,656,211
Contributions (employer/employee)	822,696,220	205,692,439
Court fees		4,386,271
Miscellaneous	469,952	19,133
Total Revenues	1,978,779,290	468,754,054
Expenditures		
Retirement and other benefits paid	545,623,041	102,938,558
Refunds	44,011,398	26,438,294
Management fees	2,560,771	894,299
Total Expenditures	592,195,209	130,271,151
Revenues Over (Under) Expenditures	1,386,584,081	338,482,903
Revenues and Other Financing Sources Over (Under)		
Expenditures and Other Financing Uses	1,386,584,081	338,482,903
Fund Balance: July 1, 1989	12,085,597,882	2,680,529,265
Fund Balance: June 30, 1990	\$13,472,181,963	\$3,019,012,168

Consolidated			m . 1
Judicial	National Guard	Legislative	Total
Retirement System	Pension Fund	Retirement System	Pension Funds
\$ 8,123,882	\$ 806,678	\$ 422,746	\$ 1,423,622,636
9,417,394	2,209,431	1,167,734	1,041,183,218
			4,386,271
150		46,455	535,690
17,541,426	3,016,109	1,636,935	2,469,727,815
5,901,702	908,723	265,760	655,637,784
70,889		1,795	70,522,376
21,847	10,840	47,286	3,535,042
5,994,438	919,563	314,840	729,695,202
11,546,988	2,096,546	1,322,095	1,740,032,613
11,546,988	2,096,546	1,322,095	1,740,032,613
_84,506,635	_7,435,356	4,162,416	_14,862,231,554
\$96,053,623	\$9,531,902	\$5,484,511	\$16,602,264,167

NORTH CAROLINA DEPARTMENT OF STATE TREASURER STATEMENT OF ASSETS AND LIABILITES INVESTMENT FUND FOR THE FISCAL YEAR ENDED JUNE 30, 1990

ASSETS

Cash in bank	\$ 48,986,778
Cash with Equity Managers	929,305
Accounts receivable - other	24,134,934
Accrued income receivable	327,487,217
Investments at book value	_19,688,455,222
Total Assets	\$20,089,993,456

LIABILITIES

Accounts payable - other	40,428,205
Undistributed income	20,510,519
Deferred income	576,928
Participant balances	20,028,477,804
Total Liabilities	\$20,089,993,456

NORTH CAROLINA DEPARTMENT OF STATE TREASURER STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES AND USES INVESTMENT FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1990

Revenues	
Investment income	
Interest	\$1,357,710,076
Dividends	173,863,346
Income from real estate	9,682,982
Income from venture capital	15,418
Net gains (losses) from sales of securities	150,339,909
Supplemental income from:	
Securities lending	3,052,839
Stock options written	1,247,612
Dividend reinvestments	30,636
Fail balance earnings	135,252
Miscellaneous	20,335
Total Supplemental Income	4,486,674
Total Revenues	1,696,098,405
Expenditures	
Management fees	2,388,756
Net Income Available for Distribution	1,693,709,649
Income Distributed	(1,694,324,740)
Change in Undistributed Income	(615,091)
Undistributed Income, July 1, 1989	21,125,610
Undistributed Income, June 30, 1990	\$ 20,510,519

NORTH CAROLINA DEPARTMENT OF STATE TREASURER NOTES TO THE FINANCIAL STATEMENTS POOLED INVESTMENT FUND JUNE 30, 1990

1. Principles of Presentation

These statements include only the investment pools run by the State Treasurer. They do not show, nor are they intended to show, any operations of the Department which are shown in financial statements published concurrently herewith. They do not reflect, nor are they intended to reflect the financial condition of the State of North Carolina.

Fiduciary Fund Types

Investment Pools — Includes within a single fund the seven investment pools established by the State Treasurer for the investment of all moneys deposited with the State Treasurer, whether State moneys or moneys voluntarily deposited for investment purposes only. The seven investment pools are:

Short-term Investment Fund — to provide for State moneys generally and all other moneys required to be deposited with the State Treasurer and moneys voluntarily deposited with the State Treasurer by State Agencies.

Liquid Asset Fund — to provide for the investment of moneys voluntarily deposited by non-State Agencies with the State Treasurer for investment only.

Long-term Investment Fund — to provide investments in intermediate and long-term Treasury, Agency, and

corporate bonds for the pension trust funds and certain large expendable trust funds.

Equity Investment Fund — to provide investments in equity securities for the pension trust funds.

Real Estate Investment Fund — to provide investments in real estate through trusts administered by third party professionals for the pension trust funds.

Bond Proceeds Fund — to provide for maintaining the records on investment of bond proceeds subject to federal arbitrage regulations and segregating the interest estimated to be subject to transfer to the U.S. Treasury.

Venture Capital Investment Fund — provides for investments in venture capital through trusts administered by third party professionals for the pension trust funds.

The investment pools have no counterparts in the literature on governmental accounting. The financial statements consist of a Statement of Assets and Liabilities, a Statement of Revenues, Expenditures and Other Financing Sources (Uses), and Notes to the Financial Statements. Since the investment pools have no fund balance, all assets held have an equal liability to some depositor. No cash flow statement is shown since the Statement of Revenues, Expenditures and Other Financing Sources (Uses) adequately reflects cash flows in the investment pools.

2. Summary of Significant Accounting Policies

- A. Basis of Accounting The investment pools are accounted for on the accrual basis. Security transactions are recorded as of trade date.
- B. There are no operations subject to budgetary control reflected in the statements of the investment pools.
- C. Cash in Bank Deposits received and warrants cleared by the banks are reported as of the date recorded on the bank's books.
- D. Investments Investments are accounted for on the accrual basis and are reported at book value. Book value is equivalent to the original cost adjusted for the amortization of premium or discount on the scientific method. Average cost is used to calculate gain or loss on the sale of a security.

From time to time, bonds held are exchanged with a broker for other bonds offered by the broker. All exchanges are on a par-for-par basis and result in either an improvement in yield or an improvement in quality or both. Exchanges are considered to be nonmarket transactions because of their overall size in

relation to the normal lots of the securities sold in the marketplace and because of the lack of an appropriate basis for estimating an equivalent market price. Because of these two conditions, exchanges are accounted for as nonmonetary transactions under APB Opinion 29.

- E. Transactions in Process Deposits in banks are reported and recorded one or more days prior to the time that the budget code to be credited is known. Warrants to be cleared by the clearing banks are reported one day prior to the time that the disbursing account to be charged is known. The amount shown as transactions in process is the net of the deposits and warrants cleared reported as changes in Cash-in-Bank but not as changes to the liabilities to specific participants.
- F. Deposits are the liability of the investment pools for moneys deposited therein and invested by the pools.
- G. Income is distributed monthly by the Short-term, Long-term, and Equity Investment Funds; daily by the Liquid Asset Fund; quarterly by the Real Estate Investment Fund; at the end of the arbitrage period by the Bond Proceeds Fund; and as cash earnings are received by the Venture Capital Investment Fund.
- H. Expenses of the investment funds are paid from budget code 13410 and are funded from the State's General Fund. Periodically, each investment fund reimburses the General Fund for its allocated share of those expenses by depositing money to General Fund Budget Code 19997, "Banking and Investment Fees."

3. Deposits and Investments

Under State statutes, the State Treasurer by virtue of his office holds substantial amounts of cash and investments for the various funds of the State. Under the authority of these statutes and except for one account related to federal bond arbitrage regulations, the State Treasurer has elected to pool all cash and investments held by him for the State into six investments pools which are an integral part of the Investment Fund. Net income for each investment pool is allocated to each participating fund which is legally eligible to receive investment income from the deposits with the State Treasurer.

Deposits — Deposits may be made in any bank, savings and loan association, or trust company in the State designated by the State Treasurer, provided the total balance is either insured or collateralized. Depositories are required in accordance with the Rules in 20 NCAC 7, to collateralize all balances of the State Treasurer which are not insured. Basically, these rules require that the bank transfer to a third-party escrow account established by the State Treasurer, securities of a type enumerated in the rules, in an amount whose market value is not less than the amount of the time deposits and the average balance of demand deposits for the preceding quarter less the allowable deposit insurance on the deposits. Generally, the rules require the securities to be governmental in origin (e.g., U. S. Treasury and Agency securities or State and local obligations) plus the highest grade commercial paper and bankers' acceptances. Each bank may elect to collateralize State deposits separately (Option 1) or to include the deposits of local governmental units in North Carolina in the same collateral pool (Option 2). Banks report only quarterly on bank balances and amounts deposited in escrow as collateralizations of deposits. The State Treasurer maintains no records of bank balances of local governments collateralized in the pool with State deposits. Since the market value of the securities pledged as collateral and the amounts of local government deposits in Option 2 banks are not known, the State's risk of being undercollateralized at times is increased. The deposits at June 30, 1990, were either insured or collateralized and consisted of:

	Per State	Per Bank
Demand Deposits	\$ 48,986,778	\$ 36,218,381
Cash with Equity Managers	929,305	10,790
Time Deposits	316,986,000	316,986,000
Total Short-Term Deposits	366,902,083	353,215,171
Long-Term Time Deposits	11,550,000	11,550,000
Total Deposits in Banks	\$378,452,083	\$364,765,171

Deposits made by State agencies outside of Raleigh are posted by the State Treasurer to the books on the date he is notified of a deposit which may be one or more days after a deposit is made. Most deposits outside of Raleigh are made in "cash concentration accounts" which are automatically transferred the following morning. Excess balances are always invested overnight.

There is no material difference between book and market values of short-term deposits. The market value of long-term time deposits do not vary significantly from stated book value. In the hands of the State Treasurer, the long-term time deposits are a nonmarketable security (collateralized deposits), which are not generally traded. If sold, the long-term time deposits would lose that collateralization and would be a different security type. The State Treasurer intends to hold the long-term time deposits to maturity.

Investments - Short-Term — These are investments of that part of the transactional balances of the various funds of the State which are not required at that time for making expenditures. The statute permits the investment of these moneys in U. S. Treasury and Agency securities, in commercial paper of the highest quality and in bankers' acceptances of North Carolina banks or other high quality American banks. These securities may also be purchased through repurchase agreements. At June 30, 1990, the short-term investments consisted of:

	Carrying Value	Market Value
U. S. Treasury and Agency Securities Corporate Medium-Term Notes	\$ 2,546,432,645 81,752,584	\$ 2,553,012,934 82,081,240
Repurchase Agreements	507,895,000	507,895,000
Commercial Paper	42,856,067	42,856,067
Bankers Acceptances	6,996,796	6,996,796
Total	\$ 3,185,933,092	\$ 3,192,842,037

Investments - Long-Term — Pension funds and other large fiduciary funds have long investment horizons and under the statutes may invest in certain high-quality corporate debt securities in addition to those securities which are permitted for short-term investment. In addition, the pension funds may invest in equity securities and real estate which meet the tests set out in the statute. At June 30, 1990, long-term investments consisted of:

	Carrying Value	Market Value
U. S. Treasury and Agency Securities International Corporate Bonds	\$ 5,840,276,330 513,697,569 5,399,976,164 3,713,690,626	\$ 6,182,374,405 545,469,101 5,219,300,975 4,906,777,225
Corporate Equities Mutual Funds	51,721,381	55,708,711
Common Trust Funds	433,647,268	477,846,082
Real Estate Trust Accounts	205,300,767	203,874,307
Venture Capital Partnerships	15,676,025	15,336,946
Total	\$16,173,986,130	\$17,606,687,752

Custody of Investment Securities — All investments are held either by the State Treasurer or by a New York bank acting as custodian for the State Treasurer. Wherever possible, securities are held in book-entry form, because it is more efficient to do so. In addition from time to time, securities are lent to broker/dealers for a fee. Whenever securities are lent, the loan is secured either by cash or U. S. Treasury securities valued at market on a current basis. During the year, the net income from securities lending was \$3,052,839.

Risk Assessment — If all transactions occur as required by the written procedures, and if all bank deposits are collateralized by the banks in accordance with the rules, all deposits and investments are considered to be "insured or collateralized with security held by the entity or by its agent in the entities' names." Possible deviations from the intent of the procedures are:

- a. Bank deposits where the actual but unknown market value of the collateral is less than the actual deposits;
- b. Bank deposits in banks which have not properly pledged collateral in accordance with the legal requirements; and
- c. Some unusual transactions which allowed the related investments to be out of custody for a short while.

The State Treasurer does not know of any events at June 30, 1990, to which any of the exceptions apply.

4. Stock Options

The Equity Investment Fund occasionally sells call options against common stock owned to enhance total earnings of the fund. The premiums received are maintained in investment inventory accounts until the option is repurchased in the market, exercised, or expired. When the option is repurchased in the market, the position is closed and any resulting gain or loss on the transaction will be shown in the income accounts as supplemental income or loss on stock options written. When the option is exercised, the position is closed and the net premium received is used to increase the gain or reduce the loss shown on the sale of the underlying stock. When the option is expired, the position is closed and the net premium on the option is shown in the income accounts as supplemental income from stock options written. For the fiscal year ended June 30, 1990, supplemental income from stock options written was \$1,247,612. At June 30, 1990, there were outstanding covered call transactions covering 250,000 shares of stock held in the portfolio. These options had an original net premium of \$576,928 and a current market value of \$594,365. The underlying shares had a book value of \$14,439,130 and a market value of \$17,623,125.

NORTH CAROLINA DEPARTMENT OF STATE TREASURER STATEMENT OF ASSETS AND LIABILITIES BY SEGMENT POOLED INVESTMENT FUND FOR THE FISCAL YEAR ENDED JUNE 30, 1990

			SEGMENT
ASSETS	SHORT-TERM INVESTMENT FUND	LIQUID ASSET FUND	LONG-TERM INVESTMENT FUND
Cash in bank Deposits in Short-term Investment Fund	\$ 48,986,422	\$ 2,584,686	\$ 30,260,716
Cash with Equity Managers Accounts receivable - other Accrued income receivable	68,753,265		246,152,942
Investments at book value Total Assets	$\begin{array}{r} 3,473,824,092 \\ \hline \$3,591,563,779 \end{array}$	\$2,584,686	$\frac{11,765,100,063}{\$12,041,513,721}$
LIABILITIES			
Accounts payable - other Undistributed income Deferred income	\$ 20,510,519	\$	\$ 652,263
Participant balances Total Liabilities	3,571,053,260 \$3,591,563,779	$\frac{2,584,686}{\$2,584,686}$	12,040,861,458 \$12,041,513,721

				MEMO	RANDUM
EQUITY INVESTMENT FUND	REAL ESTATE INVESTMENT FUND	BOND PROCEEDS FUND	VENTURE CAPITAL INVESTMENT FUND	INTRAFUND ELIMINATIONS	TOTAL
\$	\$	\$ 356	\$	\$	\$ 48,986,778
305,150,695	4,462,037		2,246,050	(344,704,184)	
929,305					929,305
24,077,325	57,609				24,134,934
12,536,451		44,559			327,487,217
4,199,059,275	205,300,767	29,495,000	15,676,025		19,688,455,222
\$4,541,753,051	\$209,820,413	\$29,539,915	\$17,922,075	\$(344,704,184)	\$20,089,993,456
\$ 39,347,877	\$ 428,065	\$	\$	\$	\$ 40,428,205
		·	· i	(Frinkler in	20,510,519
576,928					576,928
4,501,828,246	209,392,348	29,539,915	17,922,075	(344,704,184)	20,028,477,804
\$4,541,753,051	\$209,820,413	\$29,539,915	\$17,922,075	\$(344,704,184)	\$20,089,993,456
41,011,100,001	Ψ200,020, 110	Ψ20,000,010	411,022,010	4(011,101,101)	420,000,000,100

NORTH CAROLINA DEPARTMENT OF STATE TREASURER STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES AND USES BY SEGMENT POOLED INVESTMENT FUND FOR THE FISCAL YEAR ENDED JUNE 30, 1990

			SHORT-TERM INVESTMENT FUND	LIQUID ASSET FUND
Revenues				
Investment inco	ome		1000	
Interest			\$287,119,994	\$
Short-term Ir Dividends	nvestment Fund Ear	nings		235,989
Income from	real estate			
Income from	venture capital			
Net gains (los	sses) from sales of se	curities	945,387	
Supplemental Securities I Stock option			976,323	
Dividend r	einvestments			
Fail balance	ce earnings		30,724	
Miscellane	ous			
Total Su	pplemental Income		1,007,047	
Total Revenues			289,072,428	235,989
Expenditures				
Management fe	ees		647,655	322
Net Income Avail	able for Distribution		288,424,773	235,667
Interest Distribute		4	(289,039,864)	(235,667)
Change in Undist			(615,091)	
9	ome, July 1, 1989		21,125,610	
	ome, June 30, 1990		\$ 20,510,519	\$

LONG-TERM INVESTMENT FUND	EQUITY INVESTMENT FUND	REAL ESTATE INVESTMENT FUND	BOND PROCEEDS FUND	VENTURE CAPITAL INVESTMENT FUND	INTERFUND ELIMINATIONS	TOTAL
\$1,065,976,366 6,898,977	\$ 1,918,775 28,005,673	\$ 245,619	\$2,694,941	\$ 12,663	\$ (35,398,921)	\$1,357,710,076
	173,863,346	9,682,982				173,863,346 9,682,982
4,512,355	144,882,167		-	15,418		15,418 150,339,909
2,043,151	33,365					3,052,839
	1,247,612 30,636					1,247,612 30,636
81,691 1,468	13,142 18,867		9,695			135,252 20,335
2,126,310	1,343,622		9,695	200		4,486,674
_1,079,514,008	350,013,583	9,928,601	2,704,636	28,081	(35,398,921)	1,696,098,405
665,101	1,059,531	11,808	3,722	617		2,388,756
1,078,848,907	348,954,052	9,916,793	2,700,914	27,464	(35, 398, 921)	1,693,709,649
(1,078,848,907)	(348,954,052)	(9,916,793)	(2,700,914)	(27,464)	35,398,921	(1,694,324,740)
\$	\$	\$	\$	\$	\$	\$ (615,091) 21,125,610
\$	\$	\$	\$	<u>\$</u>	\$	<u>\$ 20,510,519</u>

NORTH CAROLINA DEPARTMENT OF STATE TREASURER SCHEDULE OF INVESTMENTS BY TYPE BY SEGMENT POOLED INVESTMENT FUND AT JUNE 30, 1990

SECURITY TYPE	SHORT-TERM INVESTMENT FUND	LONG-TERM INVESTMENT FUND	EQUITY INVESTMENT FUND
Repurchase agreements	\$ 478,400,000	\$	\$
Commercial paper	42,856,067		
Bankers acceptances	6,996,796		
Certificates of deposit	316,986,000		
Treasury and agency securities	2,546,432,645	3,959,277,059	
Corporate bonds	81,752,584	5,399,976,164	
International bonds		513,697,569	
Mortgage backed securities (GNMA's)		1,880,999,271	
Long-term certificates of deposit	400,000	11,150,000	
Equity securities:			
Common stock			3,713,356,224
Convertable preferred stock			334,402
Trust funds			433,647,268
Mutual funds			51,721,381
Real estate investments			
Venture capital investments			
TOTAL INVESTMENTS AT BOOK	\$3,473,824,092	\$11,765,100,063	\$4,199,059,275
Percent of total	17.64%	59.76%	21.33%
TOTAL INVESTMENTS AT MARKET	\$3,480,733,036	\$11,958,294,482	\$5,440,332,018
Percent of total	16.47%	56.60 %	25.75%

REAL ESTATE INVESTMENT FUND	BOND PROCEEDS FUND	VENTURE CAPITAL INVESTMENT FUND	TOTAL BOOK VALUE	% of TOTAL	MARKET VALUE	% OF TOTAL
		-		van makana		
\$	\$29,495,000	\$	\$ 507,895,000	2.58%	\$ 507,895,000	2.40 %
			42,856,067	0.22	42,856,067	0.20
			6,996,796	0.04	6,996,796	0.03
			316,986,000	1.61	316,986,000	1.50
			6,505,709,704	33.04	6,785,964,684	32.13
			5,481,728,748	27.84	5,301,382,214	25.10
			513,697,569	2.61	545,469,101	2.58
			1,880,999,271	9.55	1,949,422,656	9.23
			11,550,000	0.07	11,550,000	0.05
			3,713,356,224	18.86	4,906,272,475	23.23
			334,402	0.00	504,750	0.00
			433,647,268	2.20	477,846,082	2.26
			51,721,381	0.26	55,708,711	0.26
205,300,767			205,300,767	1.04	203,874,307	0.96
		15,676,025	15,676,025	0.08	15,336,946	0.07
\$205,300,767	\$29,495,000	\$15,676,025	\$19,688,455,222	$\frac{-0.00}{100.00}$ %		
-1/4		,		A		
1.04	% 0.15	% 0.08%	100.00%	<i>7</i> o		
203,874,307	29,495,000	15,336,946			\$21,128,065,789	100.00 %
0.96	% 0.14	% 0.08%			100.00	%

NORTH CAROLINA DEPARTMENT OF STATE TREASURER SCHEDULE OF PARTICIPANTS' BALANCES BY TYPE BY SEGMENT POOLED INVESTMENT FUND AT JUNE 30, 1990

PARTICIPANT TYPE	SHORT-TERM INVESTMENT FUND	LIQUID ASSET FUND	LONG-TERM INVESTMENT FUND
State Government:			
General Fund	\$ 859,039,402	\$	\$
Highway Fund	591,655,395		
University funds	308,375,926		
Pension trust funds	104,170,499		11,754,284,209
Other State funds	1,235,720,971		286,577,249
Total State Government	3,098,962,193		_12,040,861,458
Local Government	128,031,707	_2,584,686	
Other Investment Funds	344,704,184		
Transactions in process	(644,824)		
Total Participants' Balances	\$3,571,053,260	<u>\$2,584,686</u>	<u>\$12,040,861,458</u>

EQUITY INVESTMENT FUND	REAL ESTATE INVESTMENT FUND	BOND PROCEEDS FUND	VENTURE CAPITAL INVESTMENT FUND	INTERFUND ELIMINATIONS	TOTAL
\$	\$	\$	\$	\$	\$ 859,039,402 591,655,395 308,375,926
4,501,828,246	209,392,348	00 700 017	17,922,075		16,587,597,377
4 501 000 040	200 200 240	29,539,915	15,000,055		1,551,838,135
4,501,828,246	209,392,348	29,539,915	17,922,075		19,898,506,235
					130,616,393
		- <u></u> -		_(344,704,184)	
				100 K	(644,824)
\$4,501,828,246	\$209,392,348	\$29,539,915	\$17,922,075	\$(344,704,184)	\$20,028,477,804

NORTH CAROLINA DEPARTMENT OF STATE TREASURER SCHEDULE OF PARTICIPANTS' DISTRIBUTED EARNINGS BY TYPE POOLED INVESTMENT FUND AT JUNE 30, 1990

PARTICIPANT TYPE	SHORT-TERM INVESTMENT FUND	LIQUID ASSET FUND	LONG-TERM INVESTMENT FUND
State Government:			
General Fund	\$115,933,013	\$	\$
Highway Fund	34,002,597		
University funds	24,472,452		
Pension trust funds	10,947,449		1,060,267,224
Other State funds	61,070,892	<u></u>	18,581,683
Total State Government	246,426,403	080018 1000	1,078,848,907
Local Government	6,599,449	235,667	
Other Investment Funds	35,398,921		
Total Income	288,424,773	235,667	1,078,848,907
Decrease/(Increase) in			=,,.
Undistributed Income	615,091		
Total Income Distributed	\$289,039,864	\$235,667	\$1,078,848,907

EQUITY INVESTMENT FUND	REAL ESTATE INVESTMENT FUND	BOND PROCEEDS FUND	VENTURE CAPITAL INVESTMENT FUND	INTERFUND ELIMINATIONS	TOTAL
	~ 3				
\$	\$	\$	\$	\$	\$ 115,933,013 34,002,597 24,472,452
348,954,052	9,916,793	9 700 014	27,464		1,430,112,982 82,353,489
348,954,052	9,916,793	$\begin{array}{r} 2,700,914 \\ \hline 2,700,914 \end{array}$	27,464		1,686,874,533
				(35,398,921)	6,835,116
348,954,052	9,916,793	2,700,914	27,464	(35,398,921)	1,693,709,649
		1	1-17		615,091
\$348,954,052	\$9,916,793	\$2,700,914	<u>\$27,464</u>	<u>\$(35,398,921)</u>	\$1,694,324,740

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COMPARATIVE SUMMARY OF TRUST FUND INVESTMENTS

		Short-term Investment Fund		Long-term Investment Fund		
	Amount Invested*	Yield**	Amount Invested	Yield**		
Retirement Trust Funds:						
Teachers and State Employees' Retirement System:			1 1 111 11 112	0.000		
June 30, 1989	\$ 43,266,446	8.595	\$ 8,669,444,667	9.680		
June 30, 1990	58,265,649	8.536	9,529,005,412	9.452		
Local Governmental Employees' Retirement System:						
June 30, 1989	15,605,056	8.595	1,908,834,026	9.680		
June 30, 1990	39,400,248	8.536	2,098,091,685	9.452		
North Carolina Firemen's Pension Fund:						
June 30, 1989	1,075,685	8.595	43,290,796	9.680		
June 30, 1990	1,063,901	8.536	47,510,006	9.452		
Rescue Squad Worker's Pension Fund:			W 077 000	0.000		
June 30, 1989	149,168	8.595	5,071,262	9.680		
June 30, 1990	99,168	8.536	5,565,069	9.452		
Consolidated Judicial Retirement System:			KO 505 000	0.000		
June 30, 1989	1,189,949	8.595	59,707,892	9.680		
June 30, 1990	2,379,023	8.536	65,627,828	9.452		
N.C. National Guard Pension Fund:			4 800 050	0.000		
June 30, 1989	1,196,048	8.595	4,509,370	9.680		
June 30, 1990	2,561,094	8.536	4,956,467	9.452		
Legislative Retirement System:			A FOF 053	0.000		
June 30, 1989	472,484	8.595	2,565,971	9.680		
June 30, 1990	401,416	8.536	3,527,742	9.452		
Total Retirement Trust Funds:						
June 30, 1989	62,954,836	8.595	10,693,423,984	9.680		
June 30, 1990	104,170,499	8.536	11,754,284,209	9.452		
Percent of Total	0.6%		70.9%			
Other Trust Funds:						
N. C. Teachers' and State Employees' Benefit Trust:						
June 30, 1989	7,062,417	8.595	70,729,393	9.680		
June 30, 1990	10,888,785	8.536	92,940,030	9.452		
Disability Income Plan of North Carolina:	,,					
June 30, 1989	1,338,703	8.595	34,956,199	9.680		
June 30, 1990	3,412,053	8.536	56,672,282	9.452		
Register of Deeds Supplemental Pension Fund:	-,,-		110-31 7-3			
June 30, 1989	207,628	8.595	870,357	9.680		
June 30, 1990	245,444	8.536	1,314,643	9.452		
State Treasurer's Escheat Fund:	,					
June 30, 1989	6,346,388	8.595	54,834,784	9.680		
June 30, 1990	8,696,733	8.536	61,893,620	9.452		
Public Education Trust Fund:***	-,,					
June 30, 1989	43,556,339	8.595				
June 30, 1990	41,029,474	8.536	20,000,000	9.452		
State Property Fire Insurance Fund:	, , ,					
June 30, 1989	30,288,738	8.595				
June 30, 1990	7,858,955	8.536	22,344,959	9.452		
UNC — Insured Student Loan Program:						
June 30, 1989	9,677,305	8.595				
June 30, 1990	11,450,835	8.536	13,125,051	9.452		
Wildlife Endowment Fund:	,,		- 1			
June 30, 1989	17,152,656	8.595				
June 30, 1990	16,786	8.536	18,286,664	9.452		
Total Other Trust Funds:						
June 30, 1989	115 620 174	8 505	161 200 722	0.660		
June 30, 1989 June 30, 1990	115,630,174 83,599, 06 5	8.595 8.536	161,390,733	9.680		
	00,000,000	0.330	286,577,249	9.452		
Grand Total All Trust Funds:	A1=0 -0- 0-0	0 505	414 07 1 07 1 77			
June 30, 1989	\$178,585,010	8.595	\$10,854,814,717	9.680		
June 30, 1990	\$187,769,564	8.536	\$12,040,861,458	9.452		

For Year Ending June 30, 1989 - June 30, 1990

Real Estate Investment Fund		Equity Investment Fu	and	Venture Cap Investment F		Total		
Amount Invested	Yield**	Amount Invested	Yield**	Amount Invested	Yield**	Amount Invested*	Yield**	
\$161,752,414 169,728,277	6.068 4.856	\$3,150,457,728 3,632,652,596	8.507 8.348	\$ 14,483,389	0.231	\$12,024,921,255 13,404,135,323	9.325 9.089	
35,595,048 37,430,489	6.068 4.856	700,743,101 820,700,550	8.507 8.348	3,238,890	0.231	2,660,777,231 2,998,861,862	9.322 9.090	
802,361 842,230	6.068 4.856	15,359,061 17,081,950	8.507 8.348	72,401	0.231	60,527,903 66,570,488	9.318 9.092	
94,797 99,507	6.068 4.856	1,863,197 2,131,426	8.507 8.348	8,535	0.231	7,178,424 7,903,705	9.310 9.081	
1,105,219 1,159,983	6.068 4.856	21,798,456 25,996,119	8.507 8.348	102,641	0.231	83,801,516 95,265,594	9.318 9.072	
78,415 82,258	6.068 4.856	1,656,402 1,907,424	8.507 8.348	10,163	0.231	7,440,235 9,517,406	9.180 8.930	
47,300 49,604	6.068 4.856	938,248 1,358,181	8.507 8.348	6,056	0.231	4,024,003 5,342,999	9.244 9.069	
199,475,554 209,392,348	6.068 4.856	3,892,816,193 4,501,828,246	8. 507 8.348	17,922,075	0.231	14,848,670,567 16,587,597,377	9.324 9.087	
1.3%		27.1 %		0.1%		100.0%		
						77,791,810 103,828,815	9.573 9.365	
						36,294,902 60,084,335	9.623 9.408	
						1,077,985 1,560,087	9.447 9.297	
						61,181,1 72 70,590,353	9.606 9.367	
						43,556,339 61,029,474	8.595 8.658	
						30,288,738 30,203,914	8.595 8.874	
						9,677,305 24,575,886	8.595 8.942	
II CALL						17,152,656 18,303,450	8.595 9.153	
0		0		0		277,020,907 370,176,314	9.203 9.178	
\$199,475,554 \$209,392,348	6.068 4.856	\$3,892,816,193 \$4,501,828,246	8. 507 8.348	0 \$17,922,075	0.231	\$15,125,691,474 \$16,957,773,691	9.322 9. 0 89	

TREASURER'S CASH BALANCES June 30, 1990

CLEARING ACCOUNTS

Raleigh, Branch Banking & Trust Co. Raleigh, Central Carolina Bank & Trust Co., N. A. Raleigh, First Citizens Bank & Trust Co. Raleigh, First Union National Bank of N.C. Raleigh, NCNB National Bank of N.C. Unemployment Benefit Account Unemployment Clearing Account Raleigh, Peoples Bank & Trust Co. Raleigh, The Planters National Bank & Trust Co. Raleigh, Southern National Bank of N.C. Raleigh, United Carolina Bank Raleigh, Wachovia Bank & Trust Co., N.A. TOTAL CLEARING ACCOUNTS		\$ 4,160,787 1,798,156 7,406,607 9,974,645 2,369,976 1,112,512 3,318,478 1,401,237 1,317,935 2,085,083 2,658,069 14,279,457 \$51,882,942
AGENCY COLLECTION ACCOUNTS		
ASHEBORO The First National Bank of Randolph County ASHEVILLE		\$ 1,372
Clyde Savings & Loan BATH		1,228
Southern Bank & Trust Co. BURNSVILLE		1,835
First Commercial CAMDEN		1,770
Bank of Currituck CANDOR		1,224
First Bank CHARLOTTE		1,845
Republic Bank & Trust COLUMBIA		1,322
The East Carolina Bank CONCORD		1,536
Security Bank		1,326
CRESWELL The East Carolina Bank		1,033
DURHAM Mechanics & Farmers Bank		1,203
Village Bank ELIZABETH CITY		1,169
Peoples Bank & Trust Co. FAIRFIELD		1,817
The East Carolina Bank FAYETTEVILLE		1,451
United National Bank GATESVILLE		1,580
Southern Bank GREENSBORO		1,626
Greensboro National Bank HENDERSONVILLE		1,692
First Federal Savings Bank HIGH POINT		1,453
High Point Bank & Trust		1,844
JACKSON Peoples Bank & Trust		1,408

LENOIR	
Bank of Granite	1,459
LEWISTON	
Southern Bank	1,373
LEXINGTON Lorington State Bonk	1,911
Lexington State Bank MANTEO	1,011
The East Carolina Bank	1,457
MOYOCK Bank of Currituck	1,342
NAGS HEAD	1,042
The East Carolina Bank	1,109
NEWLAND	1,178
Avery County Bank NEWTON	1,110
Bank of Granite	1,386
OCRACOKE The East Carolina Bank	1,792
PEMBROKE	1,102
Lumbee Bank	1,878
PLYMOUTH Southern Bank & Trust	1,118
REIDSVILLE	
First National Bank	1,533
ROBBINS First Bank	1,417
ROCKY MOUNT	
Peoples Bank & Trust Co.	1,722
SALISBURY Security Bank & Trust Co.	1,522
SANFORD	and the contract of base A relation
First Carolina	1,941
SEVEN SPRINGS Southern Bank & Trust Co.	1,754
SHELBY	
First National SPRING LAKE	1,323
Peoples Bank & Trust Co.	1,072
SWAN QUARTER	
The East Carolina Bank TARBORO	1,215
Peoples Bank & Trust Co.	1,158
TROY	
The Fidelity Bank The First Bank	1,214 1,787
WANCHESE	1,101
The East Carolina Bank	1,311
WEST END First Bank	1,620
WINDSOR	1,020
Southern Bank & Trust Co. WINTON	1,637
Southern Bank & Trust Co.	1,309
TOTAL AGENCY COLLECTION ACCOUNTS	\$ 69,272
Treasurer's Cash Balances before Net Warrant Clearings Net Warrant Clearings and Deposits in Transit	and Deposits in Transit \$51,952,214 (2,965,434)
Treasurer's Cash Balances	\$48,986,778
	1,23,000,110

SECURITIES HELD IN TRUST JUNE 30, 1990

Description	Par Value
Securities Held in Safekeeping:	
Atlantic & East Carolina Railroad Company	
Deposit to Insure Rental Agreement	\$ 50,000
Department of Public Instruction Literary Loan Notes	2,192,200
Securities Held as Good Faith Deposits:	
North Carolina Department of Agriculture	106,000
North Carolina Department of Revenue	1,271,155
	3-
Securities Held as Custodian:	
In Treasurer's Vault:	
Long-term Investment Fund*	284,991,426
Short-term Investment Fund**	317,386,000
By Contractual Custodian Agreement:	400 000
Short-term Investment Fund	3,198,400,000
Long-term Investment Fund	12,325,562,716
Equity Investment Fund	4,199,059,275
Real Estate Investment Fund	205,300,767
Venture Capital Investment Fund	15,676,025
Bond Proceeds Fund	29,495,000
Sacratica Orange I has the State	
Securities Owned by the State:	
North Carolina Railroad Company	1 604 996
(3,208,573) shares common stock)	1,604,286
Securities Held by Escrow Agents to Secure Public Deposits:	2,075,456,762
Total	\$22,656,551,612

^{*}Corporate Private Placements and Long-term CD's.

**Certificates of Deposit and Saving Certificates

GENERAL AND HIGHWAY FUNDS INCOME FROM TREASURER'S INVESTMENTS FISCAL YEARS 1949 THROUGH 1990 (Accrual Basis)

Fiscal Year			Total General and	Average Annual Yield on 6 Months Treasury Bills	U. S. Treasury 2 Year
Ending June 30	General Fund	Highway Fund	Highway Fund	Auction	Constant Maturity
<u> </u>					
1949	\$ 355,719	\$	\$ 355,719	1.50%	%
1950	1,565,365	•	1,565,365	1.43%	
1951	3,182,816		3,182,816	1.39%	
1952	3,711,531		3,711,531	1.85%	
1953	3,383,701		3,383,701	2.00%	
1954	2,800,432		2,800,432	2.12%	
1955	2,069,388		2,069,388	1.62%	
1956	2,074,701		2,074,701	1.92%	
1957	3,124,661		3,124,661	2.97%	
1958	4,064,535		4,064,535	3.72%	
1959	3,361,306		3,361,306	2.35%	
1960	5,114,917		5,114,917	4.12%	
1961	6,906,906		6,906,906	2.62%	
1962	4,802,527	1,907,373	6,709,900	2.78%	
1963	5,161,899	1,733,738	6,895,637	2.97%	
1964	6,003,139	1,968,853	7,971,992	3.58%	
1965	7,907,545	3,151,909	11,059,454	3.84%	
1966	10,322,713	3,708,759	14,031,472	4.46%	
1967	12,337,612	5,841,357	18,178,969	4.79%	
1968	19,266,180	9,420,810	28,686,990	5.27 %	
1969	20,284,196	10,749,092	31,033,288	5.91%	
1970	22,624,169	13,201,633	35,825,802	7.24%	
1971	29,369,118	16,037,808	45,406,926	5.08%	
1972	24,325,581	12,423,644	36,749,225	4.41%	
1973	26,816,266	11,054,759	37,871,025	5.65%	
1974	53,574,503	18,535,282	72,109,785	7.92%	
1975	73,317,870	23,923,734	97,241,604	6.89%	
1976	48,641,750	15,903,056	64,544,806	5.90%	
1977	43,129,022	11,901,171	55,030,193	5.05%	6.12%
1978	44,087,283	9,927,820	54,015,103	6.45%	7.30%
1979	56,224,976	21,627,907	77,852,883	8.86%	9.30%
1980	93,499,189	19,761,250	113,260,439	11.12%	11.15%
1981	102,900,589	13,224,698	116,125,287	12.65%	12.97%
1982	115,671,991	21,107,338	136,779,329	13.22%	14.65%
1983	86,379,248	28,546,192	114,925,440	8.88%	10.45%
1984	98,885,947	30,160,751	129,046,698	9.45%	11.20%
1985	133,076,748	33,344,149	166,420,897	8.97%	10.74%
1986	151,346,427	26,485,263	177,831,690	6.90%	8.05%
1987	139,426,325	26,185,560	165,611,885	5.63 %	6.63%
1988	164,540,208	33,925,222	198,465,430	6.31%	7.77%
1989	139,553,252	30,558,023	170,111,275	8.01%	8.88%
1990	115,933,013	34,002,597	149,935,610	7.67%	8.22%
	\$1,891,125,264	\$490,319,748	\$2,381,445,012		

GENERAL OBLIGATION BONDS LOCAL GOVERNMENT REFERENDA AND AUTHORIZATIONS

Fiscal Year July 1, 1989 through June 30, 1990

	Propositions			Bonds			
	%		%		%		
	Proposed	Approved	Approved	Proposed	Approved	Approved (\$)	
COUNTIES:							
Voted Propositions:							
Schools	14	12	85.71%	\$377,580,000	\$315,780,000	83.63%	
Community Colleges	4	4	100.00	21,830,000	21,830,000	100.00	
Public Buildings	3	2	66.67	53,057,000	10,057,000	18.96	
Water	4	2	50.00	39,300,000	21,700,000	55.22	
Law Enforcement Facilities	2	2	100.00	58,300,000	58,300,000	100.00	
Sewer/Storm Drain	2	1	50.00	26,683,000	16,683,000	62.52	
Recreation	4	3	75.00	25,520,000	22,320,000	87.46	
Hospital Facilities	1	1	100.00	25,000,000	25,000,000	100.00	
Library Facilities	1	1	100.00	1,700,000	1,700,000	100.00	
Museums	1	1	100.00	4,000,000	4,000,000	100.00	
Senior Citizens Centers	1	1	100.00	1,000,000	1,000,000	100.00	
Baseball Stadiums	1	0	0.00	11,280,000	0	0.00	
Telecommunication Facilities	_1	<u>l</u>	100.00	7,750,000	7,750,000	100.00	
	39	31	79.49%	\$653,000,000	\$506,120,000	77.51%	
Nonvoted Propositions:							
Schools	1	1	100.00%	\$ 500,000	\$ 500,000	100.00%	
Water	1	1	100.00	435,000	435,000	100.00	
Law Enforcement	1	1	100.00	400,000	400,000	100.00	
Courthouses	1	1	100.00	4,390,000	4,390,000	100.00	
Public Buildings	_1	_1	100.00	2,410,000	2,410,000	100.00	
	_5	<u></u>	100.00%	\$ 8,135,000	\$ 8,135,000	100.00 %	
DISTRICTS:							
Voted Propositions:							
Water	_4	_4	100.00%	\$ 30,650,000	\$ 30,650,000	100.00 %	
Nonvoted Propositions:							
Water	_3	_3	100.00%	\$ 1,657,700	\$ 1,657,700	100.00%	

		Propositions			Bonds	
		1	%			%
	Proposed	Approved	Approved	Proposed	Approved	Approved (\$)
MUNICIPALITIES:						
Voted Propositions:						
Sewer/Storm Drain	11	9	81.82%	\$ 31,550,000	\$ 28,530,000	90.43%
Water	12	10	83.33	22,830,000	22,550,000	98.77
Parks & Recreation	5	2	40.00	2,200,000	8,700,000	395.45
Streets	3	3	100.00	45,580,000	35,000,000	76.79
Fire Fighting Facilities	1	1	100.00	550,000	550,000	100.00
Parking Facilities	1	1	100.00	200,000	200,000	100.00
Electric Systems	_1	1	100.00	1,100,000	1,100,000	100.00
	<u>34</u>	<u>27</u>	79.41%	\$104,010,000	\$ 96,630,000	92.90 %
Nonvoted Propositions:						
General Refunding	1	1	100.00%	\$ 6,890,000	\$ 6,890,000	100.00%
Water and Sewer						
Refunding	1	1	100.00	3,100,000	3,100,000	100.00
Water	1	1	100.00	888,600	888,600	100.00
Parks and Recreation	2	2	100.00	3,375,000	3,375,000	100.00
Sanitary Sewer	1	1	100.00	320,000	320,000	100.00
Streets	2	2	100.00	1,630,000	1,630,000	100.00
Public Buildings	1	1	100.00	350,000	350,000	100.00
Public Vehicles	1	1	100.00	185,000	185,000	100.00
Public Improvements	1	_1	100.00	1,450,000	1,450,000	100.00
	11	11	100.00 %	\$ 18,188,600	\$ 18,188,600	100.00 %
Total Voted	77	62	80.52%	\$787,660,000	\$633,400,000	80.42%
Total Nonvoted	<u>19</u>	19	100.00%	\$ 27,981,300	\$ 27,981,300	100.00%
Grand Total	<u>96</u>	<u>81</u>	84.38%	\$815,641,300	\$661,381,300	81.09%

Table 6

INSTALLMENT AND LEASE AGREEMENTS APPROVED BY THE LOCAL GOVERNMENT COMMISSION Fiscal Years Ended 1988, 1989, and 1990 (In Millions of Dollars)

	FY I	1987 - 88	FY I	1988 - 89	FY I	.989 - 90
	No.	Amt.	No.	Amt.	No.	Amt.
Counties/Authorities	4	\$3.0	15	\$27.7	27	\$51.0
Municipalities	4	2.2	5	10.7	_19	31.7
Total	<u>8</u>	\$5.2		\$38.4	<u>46</u>	\$82.7

SUMMARY OF STATE AND LOCAL GOVERNMENT DEBT AND AUTHORIZATIONS

At June 30, 1990

		General O	bligations					
	Bonds	Literary Fund Loans	Bond Anticipation Notes	<u>Total</u>	Revenue Bonds	Industrial Revenue Bonds	Total Indebtedness	Authorized and Unissued Bonds
State State Authorities	\$ 588,003,902.55	\$ —	\$ —	\$ 588,003,902.55	* -	\$ —	\$ 588,003,902.55	\$ —
and Institutions		·			8,226,295,533.00		8,226,295,533.00	
	\$ 588,003,902.55	<u> </u>	<u> </u>	\$ 588,003,902.55	\$8,226,295,533.00	<u>* – </u>	\$ 8,814,299,435.55	\$ —
Counties	\$1,717,204,228.67	\$1,490,200.50	\$13,764,000	\$1,732,458,429.17	\$ 233,534,300.89	\$ —	\$ 1,965,992,730.06	\$ 711,219,000
Cities	1,470,557,978.00	- / .	20,827,000	1,491,384,978.00	335,070,748.87		1,826,455,726.87	676,222,000
Districts	126,297,200.00	_	7,875,000	134,172,200.00	47,675,000.00	-	181,847,200.00	90,195,400
Authorities					385,837,722.40	2,205,001,356	2,590,839,078	
Totals	\$3,314,059,406.67	\$1,490,200.50	\$42,466,000	\$3,358,015,607.17	\$1,002,117,772.16	\$2,205,001,356	\$ 6,565,134,735.33	\$1,477,636,400
	\$3,902,063,309.22	\$1,490,200.50	\$42,466,000	\$3,946,019,509.72	\$9,228,413,305.16	\$2,205,001,356	\$15,379,434,170.88	\$1,477,636,400

Table 8

ANNUAL DEBT REQUIREMENTS FOR STATE BONDS ISSUED AND OUTSTANDING¹

At June 30, 1990

	GEN	ERAL	HIGH	IWAY	TO	ΓAL
	Existin	g Debt	Existin	g Debt	Existin	g Debt
Fiscal Year	Principal	Principal & Interest	Principal	Principal & Interest	Principal	Principal & Interest
1990-91	\$ 45,660,000.00	\$ 68,446,882.50	\$ 27,330,000	\$ 37,392,600	\$ 72,990,000.00	\$105,839,482.50
1991-92	45,700,000.00	65,903,270.00	29,940,000	38,227,230	75,640,000.00	104,130,500.00
1992-93	45,200,000.00	62,762,077.50	31,640,000	38,018,250	76,840,000.00	100,780,327.50
1993-94	44,937,897.30	60,417,407.50	32,985,000	37,359,875	77,922,897.30	97,777,282.50
1994-95	44,670,323.80	57,705,182.50	25,090,000	27,664,550	69,760,323.80	85,369,732.50
1995-96	44,458,308.40	55,062,532.50	24,120,000	25,169,040	68,578,308.40	80,231,572.50
1996-97	41,922,114.30	50,061,645.00	4,860,000	5,010,660	46,782,114.30	55,072,305.00
1997-98	33,714,916.30	39,615,855.00			33,714,916.30	39,615,855.00
1998-99	30,297,302.30	34,299,175.00			30,297,302.30	34,299,175.00
1999-00	27,009,115.30	29,172,305.00			27,009,115.30	29,172,305.00
2000-01	3,364,771.60	4,582,500.00			3,364,771.60	4,582,500.00
2001-02	804,167.30	1,910,000.00			804,167.30	1,910,000.00
2002-03	752,158.00	1,910,000.00			752,158.00	1,910,000.00
2003-04	698,448.80	1,910,000.00			698,448.80	1,910,000.00
2004-05	652,952.60	1,910,000.00			652,952.60	1,910,000.00
2005-06	605,431.80	1,910,000.00			605,431.80	1,910,000.00
2006-07	565,722.90	1,910,000.00			565,722.90	1,910,000.00
2007-08	530,014.55	1,915,000.00			530,014.55	1,915,000.00
2008-09	495,257.30	1,915,000.00			495,257.30	1,915,000.00
	<u>\$412,038,902.55</u>	<u>\$543,318,832.50</u>	<u>\$175,965,000</u>	\$208,842,205	\$5 88, 003 , 902 . 55	\$752,161,037.50

¹Refunded debt of \$299,500,000 is not included since sufficient moneys have been placed with an escrow agent to pay all principal and interest and any premium on the bonds refunded to and including their respective maturities or dates of redemption.

REVENUE BONDS AND OTHER INDEBTEDNESS OF STATE AUTHORITIES AND INSTITUTIONS

At June 30, 1990

	A 14 400 000
Appalachian State University	
East Carolina University	3,590,000
Elizabeth City State University	3,128,000
Fayetteville State University	2,395,000
North Carolina A & T State University	5,465,000
North Carolina Central University	4,610,500
North Carolina School of the Arts	1,835,000
North Carolina State University at Raleigh	41,099,881
Pembroke State University	685,000
University of North Carolina at Asheville	4,170,000
University of North Carolina at Chapel Hill	159,836,209
University of North Carolina at Charlotte	45,145,110
University of North Carolina at Greensboro	15,427,250
University of North Carolina at Wilmington	26,693,918
Western Carolina University	7,020,056
Winston-Salem State University	2,025,000
North Carolina Educational Facilities Finance Agency	188,636,979
North Carolina Housing Finance Agency	927,798,5361
North Carolina Industrial Facilities and Pollution Control Financing Authority	23,300,050
North Carolina Medical Care Commission	1,001,968,5272
North Carolina State Ports Authority	8,010,555
North Carolina ABC Commission	2,150,000
North Carolina Eastern Municipal Power Agency	3,294,774,629
North Carolina Municipal Power Agency No. 1	2,441,477,000
North Carolina Battleship Commission	
Total	

¹This indebtedness is created pursuant to authority granted to the North Carolina Housing Finance Agency to issue revenue bonds for housing for families of lower and moderate income as authorized by G. S. 122A-8.

²This indebtedness is created pursuant to authority granted to the North Carolina Medical Care Commission to issue revenue bonds for health care facilities as authorized by G. S. Chapter 131A.

Source: Chief fiscal officer of each authority or institution.

VALUATION BALANCE SHEET TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA

ASSETS	December 31, 1989	December 31, 1988
Current assets:		
Annuity Savings Fund	\$ 2,826,576,016	\$ 2,563,978,421
Pension Accumulation Fund	9,935,058,575	8,822,698,364
Total current assets	\$12,761,634,591	\$11,386,676,785
Future member contributions to Annuity Savings Fund	\$ 3,352,455,348	\$ 3,127,928,742
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 2,754,600,811	\$ 2,533,622,281
Accrued liability contributions	1,157,104,913	1,292,071,969
Undistributed gain contributions	545,549,497	391,631,345
Total prospective contributions	\$ 4,457,255,221	\$ 4,217,325,595
Total Assets	\$20,571,345,160	\$18,731,931,122
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 2,826,576,016	\$ 2,563,978,421
Future member contributions	3,352,455,348	3,127,928,742
Total contributions to Annuity Savings Fund	\$ 6,179,031,364	\$ 5,691,907,163
Pension Accumulation Fund:		
Benefits currently in payment	\$ 4,526,254,810	\$ 4,094,016,317
Benefits to be paid to current active members	9,001,329,886	8,319,401,592
Reserve for increases in retirement allowances effective July 1, 1990		
(July 1, 1989, for December 31, 1988, figure)	319,179,603	234,974,705
Reserve from undistributed gains	545,549,497	391,631,345
Total benefits payable from Pension Accumulation Fund	<u>\$14,392,313,796</u>	\$13,040,023,959
Total Liabilities	<u>\$20,571,345,160</u>	<u>\$18,731,931,122</u>

VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE NORTH CAROLINA LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

ASSETS	<u>December 31, 1989</u>	<u>December 31, 1988</u>
Current assets:		
Annuity Savings Fund	\$ 695,341,426	\$ 618,672,709
Pension Accumulation Fund	2,153,676,430	1,896,696,465
Total current assets	\$2,849,017,856	\$2,515,369,174
Future member contributions to Annuity Savings Fund	\$1,007,298,996	\$ 904,567,524
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 639,171,526	\$ 591,784,353
Accrued liability contributions	94,467,859	96,384,315
Undistributed gain contributions	125,762,119	95,081,309
Total prospective contributions	\$ 859,401,504	\$ 783,249,977
Total Assets	<u>\$4,715,718,356</u>	\$4,203,186,675
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 695,341,426	\$ 618,672,709
Future member contributions	1,007,298,996	904,567,524
Total contributions to Annuity Savings Fund	\$1,702,640,422	\$1,523,240,233
Pension Accumulation Fund:		
Benefits currently in payment	\$ 867,304,836	\$ 760,195,341
Benefits to be paid to current active members	1,959,458,687	1,780,967,203
Reserve for increases in retirement allowances effective July 1, 1990		
(July 1, 1989, for December 31, 1988, figure)	60,552,292	43,702,589
Reserve from undistributed gains	125,762,119	95,081,309
Total benefits payable from Pension Accumulation Fund	\$3,013,077,934	\$2,679,946,442
Total Liabilities	<u>\$4,715,718,356</u>	\$4,203,186,675

VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE NORTH CAROLINA CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

ASSETS	<u>December 31, 1989</u>	<u>December 31, 1989</u>
Current assets:		
Annuity Savings Fund	\$ 12,404,010	\$ 11,026,272
Pension Accumulation Fund	77,967,704	68,177,569
Total current assets	\$ 90,371,714	\$ 79,203,841
Future member contributions to Annuity Savings Fund	\$ 21,219,769	\$ 19,285,035
Prospective contributions to Pension Accumulation Fund:		•
Normal contributions	\$ 51,402,124	\$ 46,592,872
Accrued liability contributions	25,567,654	22,916,077
Undistributed gain contributions	12,022,484	11,409,615
Total prospective contributions	\$ 88,992,262	\$ 80,918,564
Total Assets	<u>\$200,583,745</u>	<u>\$179,407,440</u>
LIABILITIES		an Folker
Annuity Savings Fund:		
Past member contributions	\$ 12,404,010	\$ 11,026,272
Future member contributions	21,219,769	19,285,035
Total contributions to Annuity Savings Fund	\$ 33,623,779	\$ 30,311,307
Pension Accumulation Fund:		
Benefits currently in payment	\$ 44,842,729	\$ 40,387,887
Benefits to be paid to current active members	107,031,361	95,789,406
Reserve for increases in retirement allowances effective July 1, 1990		
(July 1, 1989, for December 31, 1988, figure)	3,063,392	1,509,225
Reserve from undistributed gains	12,022,484	11,409,615
Total benefits payable from Pension Accumulation Fund	\$166,959,966	\$149,096,133
Total Liabilities	\$200,583,745	<u>\$179,407,440</u>

VALUATION BALANCE SHEET SHOWING THE ASSETS AND LIABILITIES OF THE NORTH CAROLINA NATIONAL GUARD PENSION FUND

Prepared As of December 31, 1989

ASSETS	<u>December 31, 1989</u>	<u>December 31, 1988</u>
Present Assets	\$ 9,593,960	\$ 7,505,882
Present value of prospective contributions payable by State:		
Normal contributions	1,436,638	\$ 1,471,119
Accrued liability contribution	16,546,938	16,397,135
Total Prospective Contributions by State	17,983,476	17,868,254
Total Assets	<u>\$27,577,436</u>	<u>\$25,374,136</u>
LIABILITIES		
Present value of pensions payable to retired members	\$ 6,917,177	\$ 6,051,630
Present value of deferred pension payable to former members	7,392,933	6,688,064
Present value of prospective pensions to active members included in		
the valuation	13,267,326	12,634,442
Total Liabilities	\$27,577,436	\$25,374,136

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